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FAB INDUSTRIES INC
Form 10-Q
July 16, 2002

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 JUNE 1, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-5901

FAB INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

13-2581181

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer)
Identification No.)

200 MADISON AVENUE, NEW YORK, N.Y.

10016

(Address of principal executive office)

(Zip Code)

(212) 592-2700

(Registrant's telephone number, including area code)

N/A

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

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

CLASS

SHARES OUTSTANDING AT JULY 15, 2002

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Common stock, \$.20 par value

5,238,029

FAB INDUSTRIES INC. AND SUBSIDIARIES

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(1)

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDED	
	JUNE 1, 2002	JUNE 2, 2001
	(unaudited)	(unaudited)
Net sales	\$ 17,362,000	\$ 23,002,000
Cost of goods sold	14,765,000	22,145,000
Gross profit	2,597,000	857,000

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Operating expenses:		
Selling, general and administrative expenses	2,146,000	2,741,000
Asset impairment and restructuring charges	--	5,958,000
	-----	-----
Total operating expenses	2,146,000	8,699,000
	-----	-----
Operating income (loss)	451,000	(7,842,000)
	-----	-----
Other income (expense):		
Interest and dividend income	931,000	1,053,000
Net gain on investment securities	1,021,000	699,000
Interest expense	--	(12,000)
	-----	-----
Total other income	1,952,000	1,740,000
	-----	-----
Income (loss) before taxes	2,403,000	(6,102,000)
	-----	-----
Income tax expense (benefit)	777,000	(1,709,000)
	-----	-----
Net income (loss)	\$ 1,626,000	\$ (4,393,000)
	=====	=====

Earnings (loss) per share: (Note 6)

Basic	\$ 0.31	\$ (0.83)
Diluted	\$ 0.31	\$ (0.83)
Cash dividends declared per share	\$ 10.00	\$ 0.10

See notes to condensed consolidated financial statements.

(2)

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 26 WKS ENDED	
	JUNE 1, 2002	JUNE 2, 2001
	(unaudited)	(unaudited)
Net sales	\$ 31,612,000	\$ 43,007,000
Cost of goods sold	27,829,000	42,302,000
	-----	-----
Gross profit	3,783,000	705,000
	-----	-----
Operating expenses:		
Selling, general and administrative expenses	4,518,000	5,627,000
Asset impairment and restructuring charges	--	5,958,000
Other expense (Note 12)	750,000	--
	-----	-----
Total operating expenses	5,268,000	11,585,000
	-----	-----
Operating loss	(1,485,000)	(10,880,000)
	-----	-----

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Other income (expense):		
Interest and dividend income	1,828,000	2,131,000
Net gain on investment securities	1,116,000	1,222,000
Interest expense	(10,000)	(22,000)
	-----	-----
Total other income	2,934,000	3,331,000
	-----	-----
Income (loss) before taxes	1,449,000	(7,549,000)
	-----	-----
Income tax expense (benefit)	500,000	(2,114,000)
	-----	-----
Net income (loss)	\$ 949,000	\$ (5,435,000)
	=====	=====

Earnings (loss) per share: (Note 6)

Basic	\$ 0.18	\$ (1.03)
Diluted	\$ 0.18	\$ (1.03)
Cash dividends declared per share	\$ 10.00	\$ 0.20

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

A S S E T S

AS OF

JUNE 1, 2002 DECEMBER 1, 2001

(unaudited)

Current Assets:

Cash and cash equivalents (Note 2)	\$ 7,838,000	\$ 6,742,000
Investment securities available-for-sale (Note 3)	84,503,000	82,021,000
Accounts receivable-net of allowance of \$800,000 and \$600,000 for doubtful accounts	11,260,000	10,668,000
Inventories (Note 4)	10,100,000	12,335,000
Other current assets	1,240,000	1,617,000
	-----	-----
Total current assets	114,941,000	113,383,000
	-----	-----
Property, plant and equipment - at cost	90,781,000	91,095,000
Less: Accumulated depreciation	77,654,000	77,030,000
	-----	-----
	13,127,000	14,065,000
	-----	-----
Other assets	3,927,000	4,080,000
	-----	-----
	\$131,995,000	\$131,528,000
	=====	=====

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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	
	JUNE 1, 2002	DECEMBER 1, 2001
	(unaudited)	
Current liabilities:		
Accounts payable	\$ 4,142,000	\$ 3,661,000
Corporate income and other taxes	2,108,000	1,787,000
Accrued payroll and related expenses	908,000	1,318,000
Dividends payable (Note 1)	52,380,000	521,000
Other current liabilities	849,000	816,000
Deferred income taxes	96,000	269,000
	-----	-----
Total current liabilities	60,483,000	8,372,000
	-----	-----
Obligations under capital leases - net of current maturities	--	311,000
Other noncurrent liabilities	2,297,000	2,342,000
	-----	-----
Total liabilities	62,780,000	11,025,000
	-----	-----
Stockholders' equity	69,215,000	120,503,000
	-----	-----
	\$131,995,000	\$131,528,000
	=====	=====

See notes to condensed consolidated financial statements.

(5)

FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE 26 WEEKS ENDED JUNE 1, 2002 (unaudited)

COMMON STOCK *
=====

ADDITIONAL
PAID-IN

RETAINED

EMP

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	TOTAL	SHARES	AMOUNT	CAPITAL	EARNINGS	OWN
Balance at December 1, 2001	\$120,503,000	6,591,944	\$1,319,000	\$6,967,000	\$151,224,000	\$
Net income	949,000				949,000	
Change in net unrealized holding loss on investment securities available-for- sale, net of taxes	(167,000)					
Total comprehensive income	782,000					
Dividends (Note 1)	(52,380,000)			(6,641,000)	(45,739,000)	
Exercise of Stock Options	172,000	133,000	26,000	1,640,000		
Purchase of treasury stock	(280,000)			17,000		
Termination of Employee Stock Ownership Plan (Note 1)	--			(2,401,000)		
Acceleration of stock options	418,000			418,000		
Balance at June 1, 2002 (Unaudited)	\$69,215,000	6,724,944	\$1,345,000	\$--	\$106,434,000	

	TREASURY STOCK =====		NOTES RECEIVABLE FROM STOCKHOLDERS
	NUMBER OF SHARES	COST	
Balance at December 1, 2001	(1,383,574)	\$(35,384,000)	\$ --
Net income			
Change in net unrealized holding loss on investment securities available-for- sale, net of taxes			
Total comprehensive income			
Dividends (Note 1)			
Exercise of Stock Options			(1,494,000)
Purchase of treasury stock	(16,855)	(297,000)	

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Termination of Employee Stock Ownership Plan (Note 1)	(86,456)	(1,556,000)
---	----------	-------------

Acceleration of stock options

Balance at June 1, 2002 (Unaudited)	(1,486,915)	(\$37,237,000)	(\$1,494,000)
---	-------------	----------------	---------------

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

See notes to condensed consolidated financial statements.

(6)

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

	FOR THE 26 WKS ENDED	
	JUNE 1, 2002	JUNE 2, 2001
	(unaudited)	(unaudited)
OPERATING ACTIVITIES:		
Net Income (loss)	\$ 949,000	\$ (5,435,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	200,000	200,000
Depreciation and amortization	1,027,000	2,782,000
Non-cash asset impairment and restructuring charges	--	5,958,000
Deferred income taxes	(62,000)	(2,245,000)
Net gain on investment securities	(1,116,000)	(1,222,000)
Compensation relating to acceleration of stock options	418,000	--
Gain on disposition of fixed assets	(216,000)	(41,000)
Decrease (increase) in:		
Accounts receivable	(792,000)	2,452,000
Inventories	2,235,000	2,885,000
Other current assets	377,000	982,000
Other assets	153,000	192,000
(Decrease) increase in:		
Accounts payable	481,000	(646,000)
Accruals and other liabilities	(412,000)	(1,519,000)
Net cash provided by operating activities	3,242,000	4,343,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(193,000)	(260,000)

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Proceeds from dispositions of property	320,000	103,000
Acquisition of investment securities	(1,644,000)	(13,613,000)
	-----	-----
Net cash used in investing activities	(1,517,000)	(13,770,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(280,000)	(224,000)
Dividends	(521,000)	(1,056,000)
Exercise of Stock Options	172,000	--
	-----	-----
Net cash used in financing activities	(629,000)	(1,280,000)
	-----	-----
Increase (decrease) in cash and cash equivalents	1,096,000	(10,707,000)
	-----	-----
Cash and cash equivalents, beginning of period	6,742,000	14,695,000
	-----	-----
Cash and cash equivalents, end of period	\$ 7,838,000	\$ 3,988,000
	=====	=====

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 26 weeks ended June 1, 2002 are not necessarily indicative of the results that may be expected for the entire fiscal year ending November 30, 2002. The balance sheet at December 1, 2001 has been derived from the audited balance sheet at that date. The financial information included in the quarterly report should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 1, 2001.

The Company's Board of Directors has determined that it is in the best interests of its stockholders to sell the Company's textile business as a going concern. In order to maximize stockholder value, the Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholder approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The 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, pursue a sale of the business as a going concern and, if the Company's Board of Directors deems it advisable, engage financial advisors to assist with the sale of the business. On May 30, 2002, the Company's Board of Directors declared an initial liquidating distribution of \$10.00 per share, which was paid on June 24, 2002, with a record date of June 10, 2002. Accordingly, \$52,380,000 was accrued as of June 1, 2002 and was paid on June 24,

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2002.

In addition, pursuant to resolutions adopted by the Company's Board of Directors, upon approval of the Plan by the stockholders, the Employee Stock Ownership Plan (the "ESOP") was terminated and all shares of common stock of the Company then held in the ESOP suspense account (86,456 shares) were transferred to the Company, and held as treasury stock, in exchange for the cancellation of the outstanding loan in the amount of \$3,957,000 from the Company to the ESOP.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (which includes employees and directors) had returned to the Company the appropriate forms (representing options held by all but one optionee) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. These loans receivable have been recorded as a reduction of stockholders' equity as of June 1, 2002.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

SFAS No. 133 also requires the disclosure of certain other information including a description of the instruments, objectives, strategies and risk management policies for holding all derivatives (Notes 3 and 10).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	JUNE 1, 2002	DECEMBER 1, 2001
	-----	-----
	(unaudited)	
Cash	\$ 381	\$ 155
Taxable and tax-free short-term debt instruments	7,457	6,587
	-----	-----
	\$7,838	\$6,742
	=====	=====

3. Investment Securities:

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

		GROSS UNREALIZED HOLDING	GROSS UNREALIZED HOLDING	FAIR VALUE
JUNE 1, 2002 (UNAUDITED)	COST	GAIN	LOSS	

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-----	----	----	----	----
Equities	\$ 797	\$ --	\$ (9)	\$ 788
U.S. Treasury obligations	40,282	291	(4)	40,569
Corporate bonds	11,844	272	(272)	11,844
Money market	31,302	--	--	31,302
	-----	-----	-----	-----
	\$ 84,225	\$ 563	\$ (285)	\$ 84,503
	=====	=====	=====	=====

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (continued):

During the six months ended June 1, 2002, the Company invested a portion of their 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 call options. At June 1, 2002 and December 1, 2001, the Company had no such investments, but may continue to invest in such equity securities in the future.

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

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

The Company is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody. By policy, the Company limits the amount of credit exposure to any one financial institution. The Company has received confirmation indicating that, with respect to investment securities, each custodian with the exception of one custodian maintains appropriate insurance coverage. During fiscal 2001 and the six months ended June

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1, 2002, that custodian had approximately \$16 million and \$17 million, respectively, of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. At June 1, 2002, that custodian had approximately \$17 million of the Company's cash under investments, which were all invested in U.S. Treasury obligations. In June 2002, the Company liquidated \$8,000,000 from that custodian as part of the liquidating dividend. The Company's investment policy currently permits up to 25% of the Company's portfolio to include equity securities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Inventories:

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

	JUNE 1, 2002 (unaudited)	DECEMBER 1, 2001
	-----	-----
Raw materials	\$ 2,472,000	\$ 3,036,000
Work in process	3,676,000	4,083,000
Finished goods	3,952,000	5,216,000
	-----	-----
Total	\$10,100,000	\$12,335,000
	=====	=====
Approximate percentage of inventories valued under LIFO valuation	59%	56%
	=====	=====
Excess of FIFO valuation over LIFO valuation	\$ 2,200,000	\$ 1,710,000
	=====	=====

(11)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Asset Impairment and Restructuring Charges

As a result of the Company's plan to consolidate several manufacturing facilities, the Company's quarter ended June 2, 2001 financial results include a charge for impairment of fixed assets held for sale of \$5,958,000 for the writedown of fixed assets held for disposal to their fair value less costs to dispose. The consolidation of manufacturing facilities was an effort to restore the operations to an acceptable level of profitability by eliminating over-capacities at the manufacturing level in response to the continued weakness in the economy and market conditions that have adversely affected the domestic

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textile industry.

The fixed assets held for disposal are comprised of buildings and machinery and equipment from the knitting, dyeing and finishing activities of the business. The marketability of the assets held for disposal are subject to worldwide economic conditions which can affect the sale of such buildings and machinery.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Earnings (loss) Per Share:

Basic and diluted earnings (loss) per share for the 13 weeks ended June 1, 2002 and June 2, 2001 are calculated as follows:

	NET INCOME (LOSS) -----	WEIGHTED AVERAGE COMMON SHARES OUTSTANDING -----	PER-SHARE AMOUNT -----
For the 13 weeks ended June 1, 2002:			
Basic and diluted earnings per share	\$ 1,626,000 =====	5,205,854 =====	\$ 0.31 =====
For the 13 weeks ended June 2, 2001:			
Basic and diluted loss per share	\$(4,393,000) =====	5,270,557 =====	\$ (0.83) =====

Basic and diluted earnings (loss) per share for the 26 weeks ended June 1, 2002 and June 2, 2001 are calculated as follows:

	NET INCOME (LOSS) -----	WEIGHTED AVERAGE COMMON SHARES OUTSTANDING -----	PER-SHARE AMOUNT -----
For the 26 weeks ended June 1, 2002:			
Basic and diluted earnings per share	\$ 949,000 =====	5,207,605 =====	\$ 0.18 =====
For the 26 weeks ended June 2, 2001:			
Basic and diluted loss per share	\$(5,435,000) =====	5,275,964 =====	\$ (1.03) =====

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Comprehensive Income (Loss):

Accumulated other comprehensive income (loss) is comprised of unrealized holding

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gain (loss) related to available-for-sale securities. Comprehensive income (loss) was \$782,000 and (\$5,111,000) for the 26 weeks ended June 1, 2002 and June 2, 2001, respectively and \$1,493,000 and (\$4,532,000) for the 13 weeks ended June 1, 2002 and June 2, 2001, respectively.

8. Contingencies:

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

9. New Accounting Standards

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Derivative Financial Instruments Held or Issued

From time to time, the Company is party to equity option contracts as part of its investing activities. Option contracts are contractual agreements that give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a predetermined exercise price. In return for this right, the purchaser pays a premium to the seller of the option. By selling or writing options, the Company receives a premium and becomes obligated during the term of the option to purchase or sell a financial instrument at a predetermined exercise price if the option is exercised, and assumes the risk of not being able to enter into a closing transaction if a liquid secondary market does not exist. As of June 1, 2002, the Company had no equity option contracts. During

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the 6 months ended June 1, 2002, the Company was a party to equity option contracts from time to time.

11. Segment Information:

The Company adopted SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information" in fiscal 1999. SFAS No. 131 requires companies to report information on segments using the way management organizes segments within the company for making operating decisions and assessing financial performance. The Company's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The Company's CEO evaluates both consolidated and disaggregated financial information in deciding how to allocate resources and assess performance. The Company has identified three reportable segments based upon the primary markets it serves: Apparel Fabrics, Home Fashions, Industrial Fabrics and Accessories.

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

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The segment assets as of June 1, 2002 includes asset impairment and restructuring charges recorded in the second and fourth quarters of fiscal 2001 and apply mainly to the apparel segment with a small portion to the other segment. The 26 weeks ended June 1, 2002 include a litigation settlement in the amount of \$750,000, which is included in the Home Fashions and Accessories Segment (see Note 12).

For the 26 weeks and 13 weeks ending June 2, 2001, asset impairment and restructuring charges apply to the apparel segment.

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(in thousands)

26 WEEKS ENDED 06/01/02	HOME FASHIONS			TOTAL
	APPAREL	AND ACCESSORIES	OTHER	
External sales	\$ 25,889	\$ 2,373	\$ 3,350	\$ 31,612
Intersegment sales	1,918	23	204	2,145
Operating income (loss)	(418)	(1,120)	53	(1,485)
Segment assets	19,194	1,062	3,282	23,538

26 WEEKS ENDED 06/02/01	HOME FASHIONS			TOTAL
	APPAREL	AND ACCESSORIES	OTHER	
External sales	\$ 32,333	\$ 5,951	\$ 4,723	\$ 43,007
Intersegment sales	6,579	28	143	6,750
Operating income (loss)	(11,044)	533	(369)	(10,880)
Segment assets	32,377	2,238	4,155	38,770

PROFIT OR LOSS	26 WEEKS ENDED	
	JUNE 01	JUNE 02
	2002	2001
Total operating loss for segments	\$ (1,485)	\$ (10,880)
Total other income	2,934	3,331
Income (loss) before taxes on income	\$ 1,449	\$ (7,549)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 WEEKS ENDED 06/01/02	HOME FASHIONS			TOTAL
	APPAREL	AND ACCESSORIES	OTHER	
External sales	\$14,355	\$ 1,154	\$ 1,853	\$17,362
Intersegment sales	1,289	11	163	1,463
Operating income (loss)	581	(150)	20	451

13 WEEKS ENDED 06/02/01	HOME FASHIONS			TOTAL
	APPAREL	AND ACCESSORIES	OTHER	
External sales	\$ 18,332	\$ 2,758	\$ 1,912	\$ 23,002
Intersegment sales	3,005	8	67	3,080
Operating income (loss)	(7,835)	227	(234)	(7,842)

13 WEEKS ENDED

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PROFIT OR LOSS -----	JUNE 01 ----- 2002 ----	JUNE 02 ----- 2001 ----
Total operating (loss) for segments	\$(7,842)	\$ 451
Total other income	1,952	1,740
Income (loss) before taxes on income	\$ 2,403 =====	\$(6,102) =====

12. Other:

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

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

RESULTS OF OPERATIONS SECOND QUARTER AND SIX MONTHS FISCAL 2002 COMPARED TO FISCAL 2001 -----

The Company's Board of Directors has determined that it is in the best interests of its stockholders to sell the Company's textile business as a going concern. In order to maximize stockholder value, the Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholder approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The 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, pursue a sale of the business as a going concern and, if the Company's Board of Directors deems it advisable, engage financial advisors to assist with the sale of the business.

In addition, pursuant to resolutions adopted by the Company's Board of Directors, upon approval of the Plan by the stockholders, ESOP was terminated and all shares of common stock of the Company then held in the ESOP suspense account (86,456 shares) were transferred to the Company, and held as treasury stock, in exchange for the cancellation of the outstanding loan in the amount of \$3,957,000 from the Company to the ESOP.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (which includes employees and directors) had returned to the

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Company the appropriate forms (representing options held by all but one optionee) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. These loans receivable have been recorded as a reduction of stockholders' equity as of June 1, 2002.

Net sales for the second quarter of fiscal 2002 were \$17,362,000 as compared to \$23,002,000 in the similar 2001 period, a decrease of \$5,640,000 or 24.5%. For the six months ended June 1, 2002, net sales were \$31,612,000, a decline of \$11,395,000, or 26.5% from 2001. Such decreases were caused substantially by lower volume, as business conditions within the domestic textile industry remained depressed. The continued influx of low-cost foreign imports has also taken a sustained toll in the U.S. manufacturing sector. These factors have negatively impacted sales and production. These conditions have to date continued into the third quarter.

Gross margins as a percentage of sales for the second quarter of fiscal 2002 increased to 15.0% from 3.7% as compared to the similar 2001 period. A more favorable product mix and the consolidation of three of our manufacturing facilities reducing costs relating to employee termination, decrease in depreciation and other related costs resulted in the higher gross margins. For the six months ended June 1, 2002 gross margins increased to 12.0% compared to 1.6% in the similar 2001 period. For the six months and three months ended June 1, 2002, an increase in LIFO reserves of \$490,000 was recorded. This was due to the liquidation of certain LIFO layers and higher average FIFO prices. In the 2001 six months, a reduction in LIFO inventory reserves benefited margins in the amount of \$628,000.

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For the 26 weeks and 13 weeks ended June 2, 2001, the financial results includes a charge of \$5,958,000 for the asset impairment and restructuring charges as a result of the Company's consolidation of its manufacturing facilities. Such fixed assets are comprised of buildings and machinery and equipment from the knitting, dyeing, and finishing activities of the business. The marketability of the assets held for disposal are subject to worldwide economic conditions which can affect the sale of such buildings and machinery.

Selling, general and administrative expenses in the current quarter decreased by \$595,000, or 21.7%. For the six months ended June 1, 2002, selling, general and administrative expenses decreased by \$1,109,000 or 19.7%. Reduced expenses related primarily to the reduced number of employees and related expenses. In addition, expenses decreased as a result of the continued effectiveness of our expense and cost containment programs.

The Company settled a dispute without admitting liability for \$750,000. See Note 12 to the Condensed Consolidated Financial Statements.

Interest and dividend income for the current quarter decreased by \$122,000, or 11.6%. Although the Company had higher invested balances, the Company invested a large portion of its portfolio in United States Treasury obligations resulting in lower risks and lower yields.

In the current quarter, we realized gains from the sale of investment securities of \$1,021,000 compared to \$699,000 in last year's second quarter.

The effective income tax rate for the current quarter was 32.3% as against a tax benefit of 28.0% in last year's second quarter.

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As a result of these factors, the Company had net income of \$1,626,000 or \$0.31 per share and \$949,000 or \$0.18 per share for the 13 and 26 weeks ended June 1, 2002, respectively. For the 13 weeks ended June 2, 2001, the Company had a net loss of \$4,393,000 after asset impairment and restructuring charges of \$4,289,000, net of income tax benefit. For the 26 weeks ended June 1, 2001, the Company had a net loss of \$5,435,000 after asset impairment and restructuring charges of \$4,289,000, net of income tax benefit.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities amounted to \$3,242,000 and \$4,343,000 for the 26 weeks ended June 1, 2002 and June 2, 2001, respectively. Of the decrease, major changes were as follows: \$3,244,000 relates to comparative changes in accounts receivable, \$650,000 to inventories, \$1,755,000 to depreciation and amortization, and \$5,958,000 to non-cash asset impairment and restructuring charges. These decreases were offset by \$6,384,000 increase in net income, \$2,183,000 in deferred income taxes, \$2,234,000 to accounts payable and other current liabilities.

For the six months ended June 1, 2002, net acquisition of investment securities were \$1,644,000 as compared to net acquisition of \$13,613,000 in the comparative 2001 period. In the six-month period ending June 2, 2001, approximately \$12,000,000 of the net acquisitions of investment securities was in cash and cash equivalents. The Company has invested these funds in high quality, investment grade, taxable bonds.

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Capital expenditures for the six months ended June 1, 2002 were \$193,000 compared to \$260,000 in the comparable 2001 period.

Stockholders' equity was \$69,215,000 (\$13.21 book value per share) at June 1, 2002, as compared to \$120,503,000 (\$23.14 book value per share) at the previous fiscal year-end December 1, 2001, and \$124,470,000 (\$23.65 book value per share) at the end of the comparative 2001 second quarter. The reduction in stockholders' equity was primarily due to the liquidating dividend of \$10.00 per share declared on May 30, 2002 by the Company's Board of Directors, which was paid on June 24, 2002. Accordingly, \$52,380,000 was accrued as of June 1, 2002.

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

COMMITMENTS

STOCK REPURCHASE

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

CRITICAL ACCOUNTING POLICIES

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

RISKS AND UNCERTAINTIES

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

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, investment securities, and trade receivables. The Company places its cash and cash equivalents with high credit quality financial institutions. The Company is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody. By policy, the Company limits the amount of credit exposure to any one financial institution. The Company has received confirmation indicating that, with respect to investment

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securities, each custodian with the exception of one custodian maintains appropriate insurance coverage. During fiscal 2001 and the six months ended June 1, 2002, that custodian had approximately \$16 million and \$17 million, respectively, of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. At June 1, 2002, that custodian had approximately \$17 million of the Company's cash under investments, which were invested in U.S. Treasury obligations. In June 2002, the Company liquidated \$8,000,000 from that custodian as part of the liquidating dividend. The Company's investment policy currently permits up to 25% of the Company's portfolio to include equity securities.

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

REVENUE RECOGNITION

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

INVESTMENTS

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

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

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

FORWARD-LOOKING INFORMATION

Certain statements in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties. In particular, any statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission, or in our communications and discussions with investors and analysts in the normal course of business including, but not limited to, meetings, phone calls and conference calls, regarding the sale of our assets pursuant to a plan of liquidation and dissolution, as well as expectations with respect to future sales and operating efficiencies prior to a sale of the company, are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond our control and which may cause actual results, performance or achievements to differ materially from anticipated results, performances or achievements. Factors that might affect such forward-looking statements include, among other things: our 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

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industries in which we compete; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; material contingencies provided for in a sale of our assets; de-listing of our common stock from the American Stock Exchange; our ability to retain key employees through any wind down period; and any litigation arising as a result of our plan to wind down our operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Derivative Instruments and Hedging Activities" in Note 1 and Note 3 of the Notes to the Consolidated Financial Statements. See also "Derivative Financial Instruments Held or Issued" in Note 10 of the Notes to the Consolidated Financial Statements.

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PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on May 30, 2002. The matters

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submitted to a vote of the Company's stockholders were (i) a sale of the Company's business pursuant to the Plan of Liquidation and Dissolution and (ii) the election of three directors to Class II of the Company's Board of Directors. The Company's stockholders approved a sale of the Company's business pursuant to the Plan of Liquidation and Dissolution by a vote of 3,700,927 in favor, 51,327 against, with 4,656 abstentions. The Company's stockholders elected Messrs. Lawrence H. Bober, Martin B. Bernstein and Steven Myers to Class II of the Company's Board of Directors, to hold office until the 2005 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified. The results of the voting were as follows:

	VOTES FOR	VOTES WITHHELD
Lawrence H. Bober	4,727,513	24,104
Martin B. Bernstein	4,724,789	26,838
Steven Myers	4,528,182	223,445

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

2.1 Plan of Liquidation and Dissolution of Fab Industries, Inc. (incorporated by reference to Annex A of the Company's Definitive Proxy Statement on Schedule 14A, dated May 3, 2002)

b) Reports on Form 8-K:

On May 30, 2002, the Company filed a report on Form 8-K announcing that at its Annual Meeting of Stockholders its stockholders approved a sale of the Company's business pursuant to the Plan of Liquidation and Dissolution and that its Board of Directors declared an initial liquidating distribution of \$10.00 per share.

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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: July 16, 2002

FAB INDUSTRIES, INC.

By: /s/ David A. Miller

David A. Miller

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Vice President-Finance, Treasurer
and Chief Financial Officer
(Principal Financial and Accounting
Officer)

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