FAB INDUSTRIES INC
Form 10-Q
October 16, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 1, 2001

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 001-5901

Fab Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-2581181
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Madison Avenue, New York N.Y.	10016
(Address of principal executive office)	(Zip Code)

(212) 592-2700

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No_____

CLASS	Shares Outstanding at October 15, 2001
Common stock, $.20 par value	5,217,333

FAB INDUSTRIES INC. AND SUBSIDIARIES

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDE	
	September 1, 2001	Augus
	(Unaudited)	

Net sales	$19,901,000
Cost of goods sold	19,242,000
Gross profit	659,000
Selling, general and administrative expenses	2,493,000
Restructuring and special charges	967,000
Operating Income (Loss)	(2,801,000)
Other income (expense):	
Interest and dividend income	1,060,000
Interest expense	(7,000)
Net gain on investment securities	428,000
Total other income	1,481,000
Income (loss) before taxes	(1,320,000)
Income tax expense	0
Net income (loss)	($1,320,000)
Earnings (loss) per share (Note 7):	
Basic	($0.25)
Diluted	($0.25)
Cash dividends declared per share	$0.10

See notes to consolidated financial statements.

(2)

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 39 WKS ENDE	
	September 1, 2001	August
	(Unaudited)	
Net sales	$62,908,000	
Cost of goods sold	61,486,000	
Gross profit	1,422,000	
Selling, general and administrative expenses	8,120,000	
Restructuring and special charges	6,983,000	
Operating loss	(13,681,000)	
Other income (expense):		
Interest and dividend income	3,191,000	

Interest expense	(29,000)	
Net gain on investment securities	1,650,000	
Total other income	4,812,000	
Income (loss) before taxes	(8,869,000)	
Income tax expense (benefit)	(2,114,000)	
Net income (loss)	($6,755,000)	
Earnings (loss) per share (Note 7):		
Basic	($1.28)	
Diluted	($1.28)	
Cash dividend declared per share	$0.30	

See notes to consolidated financial statements.

(3)

FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

A S S E T S

	AS OF	
	September 1, 2001	Decem
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 8,349,000	$
Investment securities available-for-sale	79,938,000	
Accounts receivable-net of allowance of $500,000 and $300,000 for doubtful accounts	11,239,000	
Inventories	13,921,000	
Other current assets	2,029,000	
Total current assets	115,476,000	1
Property, plant and equipment - at cost	113,121,000	1
Less: Accumulated depreciation	91,382,000	
	21,739,000	
Other assets	3,518,000	
	$ 140,733,000	$ 1

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See notes to consolidated financial statements.

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
	September 1, 2001
	(Unaudited)
Current liabilities:	
Accounts payable	$ 5,454,000
Corporate income and other taxes	833,000
Accrued payroll and related expenses	1,085,000
Dividends payable	526,000
Other current liabilities	956,000
Deferred income taxes	982,000
Total current liabilities	9,836,000
Obligations under capital leases - net of current maturities	324,000
Other noncurrent liabilities	2,740,000
Deferred income taxes	3,972,000
Total liabilities	16,872,000
Stockholders' equity	123,861,000
	$ 140,733,000

See notes to consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE 39 WEEKS ENDED SEPTEMBER 1, 2001

(UNAUDITED)

	Total	Common Stock * Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Loan to Employee Stock Ownership Plan	Acc Oth Com Inc (Lo
Balance at December 2, 2000	130,855,000	6,591,944	$1,319,000	$6,967,000	$161,947,000	($4,747,000)	($
Net loss	(6,755,000)				(6,755,000)		
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	828,000						
Total comprehensive loss	(5,927,000)						
Cash dividends	(1,575,000)				(1,575,000)		
Purchase of treasury stock	(282,000)						
Payment of loan from ESOP	790,000					790,000	
Balance at September 1, 2001	$123,861,000	6,591,944	$1,319,000	$6,967,000	$153,617,000	($3,957,000)	$

* 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 consolidated financial statements.

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

	FOR THE 39 WKS ENDED September 1, 2001 (Unaudited)	FOR THE 39 WKS ENDED August 26, 2000 (Unaudited)
OPERATING ACTIVITIES:		

Net Income (Loss)	($6,755,000)	$2,195,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	300,000	825,000
Depreciation and amortization	3,709,000	4,547,000
Deferred income taxes	(1,597,000)	357,000
Restructuring and special charges	5,958,000	0
Net gain on investment securities	(1,650,000)	(1,081,000)
Gain on disposition of assets	(150,000)	0
Decrease (increase) in:		
Accounts receivable	5,533,000	1,752,000
Inventories	5,497,000	599,000
Other current assets	1,133,000	463,000
Other assets	229,000	154,000
(Decrease) increase in:		
Accounts payable	(78,000)	358,000
Accruals and other liabilities	(2,618,000)	(105,000)
Net cash provided by operating activities	9,511,000	10,064,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(352,000)	(1,112,000)
Proceeds from dispositions of property and equipment	212,000	0
Proceeds from sales of investment securities	0	5,357,000
Acquisition of investment securities	(14,643,000)	(7,633,000)
Net cash used in investing activities	(14,783,000)	(3,388,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(282,000)	(819,000)
Payment of Loan from ESOP	790,000	790,000
Dividends	(1,582,000)	(2,416,000)
Net cash used in financing activities	(1,074,000)	(2,445,000)
Increase(decrease) in cash and cash equivalents	(6,346,000)	4,231,000
Cash and cash equivalents, beginning of period	14,695,000	6,078,000
Cash and cash equivalents, end of period	$8,349,000	$10,309,000

See notes to consolidated financial statements.

FAB INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 1, 2001

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 only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 39 weeks ended September 1, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 1, 2001. The balance sheet at December 2, 2000 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 2, 2000.

Reclassification

Certain amounts in the 2000 financial statements have been reclassified to be consistent with the 2001 presentations.

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 12).

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

	September 1, 2001	December 2, 2000
Cash	$1,548	$ 2,064
Tax-free short-term debt instruments	6,801	12,631
	$8,349	$14,695

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities:

At September 1, 2001 and December 2, 2000, investment securities available-for-sale consisted of the following (in thousands):

	Gross Unrealized	Gross Unrealize

September 1, 2001 (Unaudited)	Cost	Holding Gain	Holding Loss
Equities	$ 16,409	$ 533	($ 408)
U.S. Treasury obligations	3,834	73	--
Corporate bonds	56,965	1,179	(491)
Money market	1,844	--	--
	$ 79,052	$ 1,785	($ 899)

December 2, 2000	Cost	Gross Unrealized Holding Gain	Gross Unrealize Holding Loss
Equities	$ 849	$ --	($ 68)
U.S. Treasury obligations	14,172	93	--
Tax-exempt obligations	6,015	8	(74)
Corporate bonds	35,225	95	(548)
Money market	6,497	--	--
	$ 62,758	$ 196	($ 690)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (continued):

Included in the Company's equity investment securities at September 1, 2001 are short-term S&P 100 index put options with a fair value of $793,320 and short-term S&P 100 index call options sold, not yet purchased with a fair value of $133,560.

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 and receives confirmation indicating that, with respect to investment securities, each custodian (with the exception of one custodian, which held equity securities during fiscal 2001) maintains appropriate insurance coverage to protect the Company's investment portfolio.

4. Stockholders' Equity:

Employee Stock Ownership Plan:

An annual installment of $790,000 plus interest at prime was paid by the ESOP to the Company on August 1, 2001. The balance on the ESOP indebtedness of $3,957,000 is reflected as a reduction of the Company's Stockholders' Equity in the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. 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.

	September 1, 2001	December 2, 2000
Raw materials	$ 3,750,000	$ 5,019,000
Work in process	5,104,000	7,142,000
Finished goods	5,067,000	7,257,000
Total	$13,921,000	$19,418,000
Approximate percentage of inventories valued under LIFO valuation	52%	52%
Excess of FIFO valuation over LIFO valuation	$ 2,600,000	$3,228,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Restructuring and Special Charges

As a result of the Company's plan to consolidate several manufacturing facilities, the Company's 39 weeks ended September 1, 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 is 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 textile industry.

The fixed assets held for disposal are comprised of machinery and equipment from the knitting, dyeing and finishing activities of the business. Management believes that such assets will be sold within six to twelve months. However, the sale of used textile machinery is subject to worldwide economic conditions which can affect the sale of such machinery.

During the 13 weeks ended September 1, 2001, the Company has expended approximately $967,000 to remove and transfer machinery and equipment to the Company's Mohican Mills facility as part of the consolidation of the Company's manufacturing facilities. For the 39 weeks ended September 1, 2001, such costs amounted to approximately $1,025,000.

7. Earnings Per Share:

Basic and diluted earnings (loss) per share for the 13 weeks ended September 1, 2001 and August 26, 2000 are calculated as follows:

	Net Income (Loss)	Weighted Average Common Shares Outstanding
For the 13 weeks ended September 1, 2001:		
Basic and diluted loss per share	$ (1,320,000)	5,260,588
For the 13 weeks ended August 26, 2000		
Basic and diluted earnings per share	$ 1,059,000	5,333,477

Basic and diluted earnings (loss) per share for the 39 weeks ended September 1, 2001 and August 26, 2000 are calculated as follows:

	Net Income (Loss)	Weighted Average Common Shares Outstanding
For the 39 weeks ended September 1, 2001		
Basic and diluted loss per share	$(6,755,000)	5,270,839
For the 39 weeks ended August 26, 2000		
Basic and diluted earnings per share	$ 2,195,000	5,351,475

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Segment Information:

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: The Company uses its own textile fabrics internally to produce 100% cotton jersey sheets, flannel and satin sheets, as well as blankets, comforters and other bedding products which the Company sells to specialty stores, catalogues and mail order companies as well as airlines and healthcare institutions. The Company's textile fabrics are also sold to manufacturers of home furnishings.

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 of industrial fabrics and upholstery fabrics for residential and contact markets. The Company also sells retail over-the-counter fabrics.

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

- Interest and dividend income
- Interest 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.

For the 39 weeks and 13 weeks ending September 1, 2001, charges for the restructuring and special charges apply to the apparel segment.

(in thousands)

39 Weeks Ended 09/01/01	Apparel	Home Fashions and Accessories	Other	Total
External sales	$46,548	$9,205	$7,155	$62,908
Intersegment sales	8,744	28	291	9,063
Operating income/(loss)	(14,002)	722	(401)	(13,681)
Segment assets	30,395	1,223	3,729	35,347

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

39 Weeks Ended 08/26/00	Apparel	Home Fashions and Accessories	Other	Total
External sales	$69,770	$10,135	$7,251	$87,156
Intersegment sales	9,001	42	215	9,258
Operating income/(loss)	(1,813)	883	129	(801)
Segment assets	49,489	2,285	4,094	55,868

Profit or Loss	39 Weeks Ended September 01 2001	39 Weeks Ended August 26 2000
Total operating (loss) for segments	$ (13,681)	$ (801)
Total other income	4,812	3,832
Income (loss) before taxes on income	$ (8,869)	$ 3,031

13 Weeks Ended 09/01/01	Apparel	Home Fashions and Accessories	Other	Total
External sales	$14,215	$3,254	$2,432	$19,901
Intersegment sales	2,165	-	148	2,313
Operating income/(loss)	(2,958)	189	(32)	(2,801

13 Weeks Ended 08/26/00	Apparel	Home Fashions and Accessories	Other	Total
External sales	$22,787	$3,883	$2,606	$29,276
Intersegment sales	3,394	5	71	3,470
Operating income/(loss)	38	220	172	430

	13 Weeks Ended	
Profit or Loss	Sept. 01 2001	Aug. 26 2000
Total operating income (loss) for segments	$ (2,801)	$ 430
Total other income	1,481	1,083
Income (loss) before taxes on income	$ (1,320)	$ 1,513

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Comprehensive Income (Loss):

Accumulated other comprehensive income (loss) is comprised of unrealized holding gain (loss) related to available-for-sale securities. Comprehensive income (loss) was ($5,927,000) and $2,353,000 for the 39 weeks ended September 1, 2001 and August 26, 2000, respectively and ($816,000) and $1,628,000 for the 13 weeks ended September 1, 2001 and August 26, 2000, respectively.

10. 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.

11. Recently Issued 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.

12. 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.

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

Results of Operations
Third Quarter and Nine Months
Fiscal 2001 Compared to Fiscal 2000

Net sales for the third quarter of fiscal 2001 was $19,901,000 as compared to $29,276,000 in the similar 2000 period, a decrease of 32.0%. For the nine months ended September 1, 2001, net sales were $62,908,000, a decline of $24,248,000, or 27.8%, from the comparable 2000 period. Such decreases were caused substantially by lower volume as continued weakness in the economy and market conditions have adversely affected the domestic textile industry. Gross margins as a percentage of sales declined from 11.1% for the third quarter of fiscal 2000 to 3.3% for the third quarter of fiscal 2001. Lower sales volume and the consolidation of two of our manufacturing facilities reduced operating rates at production facilities. In the current quarter no adjustments to LIFO inventory reserves were required. In the third quarter August 26, 2000, an addition to LIFO inventory reserves in the amount of $400,000 was made as a result of higher average FIFO costs. For the nine months ended September 1, 2001 gross margins were 2.3% compared to 10.3% in the comparable 2000 period. During the nine months ended September 1, 2001, a reduction in LIFO inventory reserves benefited margins in the amount of $628,000. During the nine months ended August 26, 2000, an addition to LIFO inventory reserves amounted to $400,000 as a result of higher average FIFO costs. The Company, in an ongoing effort to restore operations to acceptable levels of profitability by eliminating over-capacities, closed two of its manufacturing plants, Travis Knits

in Cherryville, North Carolina and Adirondack Knitting in Amsterdam, New York during the first week of July 2001. The knitting, dyeing, and finishing activities of these two operations was consolidated into Fab's Mohican Mills facility located in Lincolnton, North Carolina. The Company has also commenced its plan for the closure of its Maiden, North Carolina facility. This closure is expected to be completed by December 1, 2001, with operations being transferred to the Company's Mohican Mills facility. As a result of the consolidation of the manufacturing facilities, the results for nine months ended September 1, 2001 include a restructuring and special charges of $6,983,000, including $5,958,000 for the writedown of fixed assets held for disposal to fair value less costs of disposal. Such fixed assets are comprised of machinery and equipment from the knitting, dyeing, and finishing activities of the business. Management believes that the assets held for disposal will be sold within six to twelve months. However, the sale of used textile machinery is subject to worldwide economic conditions which can affect the sale of such machinery. Additionally, for the 39 weeks and 13 weeks ended September 1, 2001, the Company expended approximately $1,025,000 and $967,000 respectively to remove and transfer machinery and equipment to the Company's Mohican Mills facility, which was included in the restructuring and special charges.

The Company expects results of operations for the fourth Quarter of its financial year ending December 1, 2001 to continue to be impacted by amounts spent to move machinery and equipment to the Company's Mohican Mills facility. Expenditures will also

be required to maintain the facilities to be disposed of until the sale occurs.

It is anticipated that this operational consolidation will be completed on or before December 1, 2001; and, during this time period Management anticipates no disruption in operations that would adversely affect customer or supplier commitments. The Company will continue to evaluate further steps to reduce costs in light of the present market conditions.

Selling, general and administrative expenses in the current quarter decreased by $318,000 or 11.3% from the comparable 2000 period. For the nine months ended September 1, 2001, selling, general and administrative expenses decreased by $1,648,000 or 16.9% from the comparable 2000 period. Reduced expenses related primarily to the reduced number of employees and a reduction of approximately half of the floor space of our executive offices and showroom facilities in our New York City headquarters. In addition, expenses decreased as a result of the continued effectiveness of our expense and cost containment programs.

Interest and dividend income for the current quarter increased by $72,000, or 7.3% from the comparable 2000 period because of higher invested balances. In order to obtain higher yields, a portion or our portfolio was transferred from tax-free municipals to high quality investment grade, taxable bonds.

In the current quarter, we realized gains from the sale of investment securities of $428,000 compared to $120,000 in last year's third quarter.

As a result of these factors, the Company had a net loss of $1,320,000 for the current quarter, including the restructuring and special charges of $967,000 compared to net income of $1,059,000 in last year's third quarter. For the nine months ended September 1, 2001, the Company had a net loss of $6,755,000 including the restructuring and special charges of $5,510,000 net of income tax benefit, compared to net income of $2,195,000 in last year's nine months.

For the current quarter, basic and diluted losses per share were $0.25, including restructuring and special charges of $0.18 per share compared to basic and diluted earnings per share of $0.20 in last year's third quarter. For the nine months ended September 1, 2001, basic and diluted losses per share were $1.28, including restructuring and special charges of $1.05 per share, compared to basic and diluted earnings per share of $0.41 in last year's comparable period.

Liquidity and Capital Resources

Net cash provided by operating activities amounted to $9,511,000 and $10,064,000 for the 39 weeks ended September 1, 2001 and August 26, 2000 respectively. Of this decrease, $8,950,000 relates to comparative changes in net income, $2,443,000 in accounts payable, accruals and other liabilities, $525,000 in provision for doubtful accounts, $1,954,000 in deferred income taxes, $838,000 in depreciation and amortization, $569,000 in net gain on investment securities and $150,000 in gain on disposition of fixed assets. These decreases were offset by increase of $3,781,000 in accounts receivable, $4,898,000 in

inventories,$745,000 to current and other assets and $6,520,000 in restructuring and special charges.

For the nine months ended September 1, 2001 net acquisitions of investment securities were $14,643,000 as compared to net acquisitions of $2,276,000 in the comparative 2000 period. In the nine month period approximately $12,000,000 of the net acquisitions was in cash and cash equivalents at December 2, 2000. The Company has invested these funds in high quality, investment grade, taxable bonds.

Capital expenditures for the nine months ended September 1, 2001 were $352,000 as compared to $1,112,000 in the comparable 2000 period.

The Company declared a quarterly dividend of $0.10 per share, payable October 19, 2001, to stockholders of record as of September 7, 2001.

Stockholders' equity was $123,861,000, ($23.54 book value per share) at September 1, 2001 (restructuring and special charges reduced book value by $1.05 per share), as compared to $130,855,000, ($24.78 book value per share) at the previous fiscal year-end December 2, 2000, and $131,109,000, ($24.60 book value per share) at the end of the comparative 2000 third quarter.

Management believes that the current financial position is adequate to internally fund any future expenditures to maintain, modernize our manufacturing facilities, and pay dividends.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Derivative Instruments and Hedging Activities" in Note 1 and in Note 3 of the Notes to Consolidated Financial Statements. See also "Derivative Financial Instruments Held or Issued" in Note 12 of the Notes to Consolidated

Financial Statements.

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 consummation and benefits of future acquisitions, as well as expectations with respect to future sales, operating efficiencies and product expansion, are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond our control, 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, overall economic and business conditions; 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: economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders; the ability to achieve anticipated synergies and other cost savings in connection with acquisitions; the timing, impact and other uncertainties of future acquisitions.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits: No exhibits are filed herewith.

b) Reports on Form 8-K: The Registrant did not file any Current Reports on Form 8-K during the quarter ended September 1, 2001.

SIGNATURES

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

Dated: October 15, 2001

FAB INDUSTRIES, INC.

By: /s/ David A. Miller

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