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FAB INDUSTRIES INC  
Form 10-K  
February 27, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended November 29, 2003

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  
(State or other jurisdiction  
of incorporation or organization)

13-2581181  
(I.R.S. Employer  
Identification No.)

200 Madison Avenue, New York, NY  
(Address of principal executive offices)

10016  
(Zip Code)

Registrant's telephone number, including area code: 212-592-2700

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$.20 par value	American Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: Share Purchase Rights

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of The Act)

Yes  No

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The aggregate market value at May 31, 2003 of shares of the registrant's Common Stock, \$.20 par value (based upon the closing price per share of such stock on the Composite Tape for issues listed on the American Stock Exchange), held by non-affiliates of the registrant was approximately \$33,000,000. Solely for the purposes of this calculation, shares held by directors and executive officers of the registrant and members of their respective immediate families sharing the same household have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: At February 13, 2004, there were outstanding 5,215,031 shares of Common Stock, \$.20 par value.

DOCUMENTS INCORPORATED BY REFERENCE: Certain portions of the registrant's definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10K pursuant to Regulation 14A are incorporated by reference in Items 10 through 14 of Part III of this Annual Report on Form 10-K.

FAB INDUSTRIES, INC.

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## PART I

### ITEM 1. BUSINESS

Fab Industries, Inc. was incorporated on April 21, 1966, under the laws of the State of Delaware and is a successor by merger to previously existing businesses. References in this Annual Report to "Fab" or "us" or "our" or "the Company" mean Fab Industries, Inc. and its subsidiaries on a consolidated basis, unless the context otherwise requires.

We are a manufacturer of warp and circular knit fabrics, raschel laces, and laminated fabrics. We also produce comforters, sheets, blankets and other bedding products.

The Company's Board of Directors has determined that it is in the best interests of its stockholders to sell the Company's textile business as a going concern. In order to maximize stockholder value, the Board of Directors adopted resolutions dated March 1, 2002 which authorized, subject to stockholder approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002. The Plan provides the Company's officers and directors will continue to operate the Company's textile business in its current fashion and pursue a sale of the business as a going concern. The Company's Board of Directors has approved the engagement of McFarland Dewey & Co., LLC financial advisors in November 2002 to assist with the sale of the business. The accompanying financial statements have been prepared on a going concern basis. There can be no assurance, however, that the Company will be successful in selling its business or if it does sell the business, that it will be able to recover the full value of its assets, particularly its property, plant and equipment. On August 1, 2003, and May 30, 2002 the Company's Board of Directors declared a liquidating distribution of \$4.00 per share and \$10.00 per share, respectively, which resulted in a payment to stockholders of \$20,860,000 and \$52,380,000 in August 2003 and June 2002, respectively. On February 18, 2004, the Company's Board of Directors declared a liquidating distribution of \$3.00 per share, to be payable on March 10, 2004, with a record date of February 28, 2004.

Pursuant to resolutions adopted by the Company's Board of Directors, upon approval of the Plan by the stockholders on May 30, 2002 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. The Company recorded the related treasury stock at fair market value on the date of the termination, which resulted in a \$2.4 million charge to additional paid-in-capital.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan on May 30, 2002, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (including employees and directors) had returned to the Company the appropriate forms (representing options held by all but one optionee, who exercised via payment to the Company) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. The amount loaned to the employees and directors to exercise their options was approximately \$1,495,000, which was all repaid prior to August 30, 2003. These options were subject to variable accounting at each reporting

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period, until the loans were repaid. In June 2003, the Company repurchased 22,984 shares of its common stock at \$9.48 per share from employees and directors with outstanding loans from the Company and offset the related payment against the loans due from such employees and directors, which were due as of May 31, 2003 with a one month grace period. The Company purchased the number of shares necessary for the employees and directors to pay off all outstanding loans, including interest.

(1)

On October 23, 2003, Fab received a preliminary, non-binding offer from a management-led buyout group to acquire the business, as a going concern, for \$19,556,366 (or \$3.75 per share), subject to certain terms and conditions. The offer contemplated that the management-led group would acquire all of the assets, and assume all of the liabilities, of Fab, and assumed that Fab will not make any further cash distributions. In connection with its receipt of the management-led offer, Fab formed a Special Committee comprised solely of independent directors to review the offer.

On November 26, 2003, the management-led buyout group offer to acquire the business was withdrawn.

The Company is currently in compliance with the 40% limitation on holding investment securities set forth in the Investment Company Act of 1940 and intends to remain in compliance with such requirements in the future.

### OPERATIONS

Fab is a supplier of knitted fabrics and lace in the domestic textile industry. The Company currently operates in three segments: (1) Apparel Fabrics, (2) Home Fashions and Accessories, and (3) Other, consisting of the Gem Urethane operation, the Over-the-Counter Retail operation, located at the Salisbury Manufacturing facility, and Industrial Fabrics.

#### APPAREL FABRICS

The Company's textile fabrics are sold to a wide variety of manufacturers of ready-to-wear and intimate apparel for women and children, including dresses and sportswear, children's sleepwear, activewear, swimwear, and recreational apparel.

These fabrics are sold and marketed through the Company's Warp Knit and Circular Knit Business Units. The fabrics are sold primarily in piece dyed form, as well as "PFP" (prepared for printing), and heat transfer printed configurations.

Fab's raschel lace products are sold to manufacturers of intimate apparel products consisting of lingerie, daywear, panty, bra and foundations, ladies' sportswear, children's wear, swimwear, home furnishing, accessories, and hobby and crafts.

The Company's laces are sold in both narrow and all-over constructions. Narrow band laces are offered with scalloped or galloon edges in rigid and stretch constructions. All-over laces are offered with either straight or galloon edges in rigid and stretch constructions utilizing both spandex and helenca nylon.

Fab's lace products are sold to manufacturers of intimate apparel through the Raval Designer and Wiener Lace divisions. The Raval Lace division sells and markets laces to manufacturers and jobbers of dresses and sportswear,

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blouses, other related outerwear industries, and to the home furnishing and bedding industry.

The Company's subsidiary, SMS Textiles, Inc. ("SMS"), specializes in wide elastic fabrics for sale to manufacturers of intimate apparel, swimwear, athleticwear, and sportswear.

Fab's Lida Stretch Fabrics Division specializes in circular knit products blending nylon, cotton, polyester, and rayon with spandex to create stretch fabrics in a variety of constructions. These fabrics are sold as piece and yarn dyes to the ready-to-wear, aerobicwear, swimwear, and intimate apparel markets. The broad range of products includes jerseys, ribs, jacquards, and failles.

The Company also offers a comprehensive line of heat transfer prints for sleepwear, robewear, outerwear, and activewear applications.

(2)

### HOME FASHIONS AND ACCESSORIES

The Company sells its fabrics and laces directly to manufacturers in the home fashion and bedding-related industries.

In addition, Fab utilizes its own fabrics and laces to internally produce flannel and satin sheets, blanket products, comforters, and other bedding-related products, which are sold to specialty stores, catalogue 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) Industrial and other miscellaneous non-apparel fabrics.

The Company's subsidiary, Gem Urethane produces a line of ultrasonically, hot melt adhesive, flame and adhesive bonded products for environmental, health care, industrial, and consumer markets.

In addition, Gem Urethane does toll laminating and converting for these markets as well as a fire resistant fabric, Sandel(R), through its subsidiary Sandel International, to the seating, transportation and military markets.

Subsequent to year ended fiscal 2003, certain equipment was sold to a customer which previously owned 50% of the equipment. The proceeds from the sale amounted to \$1,100,000. As a result, the customer at a future date will be doing the production on its own.

The Company also sells its fabrics and laces to the over-the-counter retail market through its retail manufacturing operation located at the Salisbury Manufacturing plant. Internally produced fabrics and laces are transported to the Salisbury Manufacturing facility where the fabrics and laces are "doubled and rolled" on specialized equipment, packaged, and then shipped to various over-the counter retail customers.

The Company also manufactures various engineered fabrics for specific industrial and institutional end-uses, including Velcro-UBL (unbroken loop) constructions, laminating and coating substrates, linings, and filtration.

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### GENERAL

We engage in research and product development activities to create new fabrics and styles to meet the continually changing demands of our customers. Direct expenditures in this area aggregated \$1,999,000 in fiscal 2001, \$1,690,000 in fiscal 2002, and \$850,000 in fiscal 2003. Through these efforts, we have developed a full line of proprietary knitted fabrics for sale to manufacturers of men's, women's, and children's apparel in both domestic and foreign markets. Similarly, we have also developed a full line of flannel and satin sheets and blankets, including specialty blankets for the airline and health care institutions.

While we use various trademarks and trade names in the promotion and sale of our products, we do not believe that the loss or expiration of any such trademark or trade name would have a material adverse effect on our operations.

We market our products primarily through our full-time sales personnel, as well as independent representatives located throughout the United States and abroad.

We do not believe our backlog of firm orders is a material indicator of future business trends because goods subject to such orders are shipped within two to ten weeks depending on the availability of yarn and other raw materials. On average, orders are filled within six weeks.

During fiscal 2003, no single customer or group of affiliated customers accounted for more than 10% of the year's net sales. Our export sales are not material.

(3)

### SUPPLIES OF RAW MATERIALS

We have not experienced difficulties in obtaining sufficient yarns, chemicals, dyes and other raw materials and supplies to maintain full production. We do not depend upon any single source of supply, and alternative sources are available for most of the raw materials used in our business.

### INVENTORIES

We maintain adequate inventories of yarns and other raw materials to ensure an uninterrupted production flow. Greige and finished goods are maintained as inventory to meet varying customer demand and delivery requirements. We must maintain adequate working capital, because credit terms available to customers normally exceed credit terms extended to us by suppliers of raw materials.

### COMPETITION

Fab is engaged in a highly competitive global business which is based largely upon price, product quality, service and general consumer demand for the Company's finished goods. The portion of imported textile goods sold in the United States has increased substantially in the past few years, adversely impacting domestically manufactured textile products and the number of domestic manufacturers of such products. Our sales have declined from approximately \$151,000,000 in 1998 to approximately \$51,000,000 in 2003, largely as a result of increased foreign competition.

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### SEGMENT INFORMATION

See Note 14 of the Notes to Consolidated Financial Statements.

### EMPLOYEES

At February 13, 2004, the Company employed approximately 500 people, of whom approximately 475 are employed by our subsidiaries. The employees are not represented by unions. We consider relations with our employees to be satisfactory. The number of our employees has declined from approximately 1,600 at the end of 1998 to approximately 500 on February 13, 2004.

### ITEM 2. PROPERTIES.

The Company conducts its manufacturing operations in Lincolnton and Salisbury, North Carolina, and Amsterdam, New York.

Yarn receiving and storage, dye and chemical receiving and storage, knitting operations, and dyeing and finishing operations are conducted at the Mohican Mills facility. These operations more specifically include tricot (warp knit) and raschel warping, tricot knitting, raschel lace knitting, wide elastic/stretch raschel knitting, circular and double-knit knitting, dyeing, framing, surface finishing including sueding, napping, shearing, heat transfer printing, lace separation, all facility-wide quality operations, laboratory testing and certification, yielding, packaging, and shipping.

The Mohican Mills facility also processes and serves as a warehouse for greige and finished fabrics and lace.

The Salisbury facility is the site of our consumer and institutional finished products manufacturing, the Over-The-Counter Retail Operation, and the Company's Mill Outlet Store.

The Gem Urethane plant in Amsterdam, New York utilizes approximately 106,000 square feet for production.

(4)

Fab closed two manufacturing plants, Travis Knits in Cherryville, North Carolina and Adirondack Knitting in Amsterdam, New York, during the first week of July 2001. The Adirondack Knitting Plant was on an operating lease which expired at the time of closure. In addition, on November 16, 2001, Fab closed its manufacturing plant in Maiden, North Carolina. The manufacturing operations of each of these facilities were consolidated into the Company's Mohican Mills facility located in Lincolnton, North Carolina. The Company is attempting to sell its plants in Cherryville and Maiden, North Carolina.

Over the past two years, the Company has reduced the floor space of its executive offices and showroom facilities in its New York City headquarters.

The following table sets forth the location of each of Fab's current manufacturing facilities, its current principal use, if any, approximate floor space and, where leased, the lease expiration date. There are no mortgages or other encumbrances on any of our facilities. All the Company's operating facilities are in good operating condition and repair.

APPROXIMATE

LEA

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LOCATION -----	PRINCIPAL USE -----	FLOOR SPACE -----	EXPIRATION -----
Lincolnton, North	Dyeing and finishing, Carolina raschel and tricot knitting, circular single and double knitting, tricot and raschel warping, printing and warehousing.	630,550 sq. ft.	(1)
Lincolnton, North Carolina	Warehouse	55,000 sq. ft.	(1)
Maiden, North Carolina	(3)	224,013 sq. ft.	(1)
Salisbury, North Carolina	Manufacturing finished consumer and institutional products and retail and over-the-counter fabrics	125,000 sq. ft.	(1)
Amsterdam, New York	Laminated fabrics, fire fighting material manufacturing operations and bonding and laminating	106,000 sq. ft.	(2)
Cherryville, North Carolina	(3)	197,000 sq. ft.	(1)
New York, New York	Executive offices and showroom facilities	5,753 sq. ft.	7/3

(1) Company owned.

(2) The lease currently runs from month to month.

(3) These facilities were closed during 2001 and are currently subject to a brokerage sale agreement. Manufacturing operations were consolidated into Fab's Mohican Mills facility located in Lincolnton, North Carolina.

All of our facilities are constructed of brick, steel or concrete, and we consider all facilities to be adequate and in good operating condition and repair.

(5)

ITEM 3. LEGAL PROCEEDINGS.

On November 10, 2003, a class action complaint was filed against the Company. 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 which was an allegedly interested transaction, the amendment to Mr. Bitensky's employment contract discussed below in Item 7, 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 defendants' 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.

On each of November 21 and November 26, 2003, additional class action lawsuits were initiated against the Company, asserting substantially the same allegations as those described above.

The Company believes that each of the claims described above is without



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merit. Further, certain of the claims described above have been rendered moot by the withdrawal of the preliminary offer by the management-led buyout group to acquire the Company.

A number of other 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, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position or results of operations.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

Not Applicable

(6)

### PART II

#### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Fab's Common Stock is traded on the American Stock Exchange, Inc. (ticker symbol - FIT). The table below sets forth the high and low sales prices of the Common Stock during the past two fiscal years.

FISCAL 2003 -----	HIGH ----	LOW ---
First Quarter.....	\$ 9.00	\$ 8.15
Second Quarter.....	\$ 9.75	\$ 8.98
Third Quarter.....	\$ 11.25	\$ 6.70
Fourth Quarter.....	\$ 7.50	\$ 4.63
FISCAL 2002 -----		
First Quarter.....	\$ 18.70	\$ 12.75
Second Quarter.....	\$ 19.05	\$ 17.50
Third Quarter.....	\$ 8.67	\$ 7.70
Fourth Quarter.....	\$ 9.00	\$ 6.90

At February 3, 2004, there were approximately 683 holders of record of Common Stock. 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 paid on June 24, 2002. On August 1, 2003, the Company's Board of Directors declared a second liquidating distribution of \$4.00 per share, which was paid on August 22, 2003, with a record date of August 11, 2003. Accordingly, \$20,860,000 was paid on August 22, 2003.

The Company has terminated all of its stock option plans and as a result there are no options outstanding or available for grant.

(7)

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### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

(in thousands, except for share and per share data)

	AS AT OR FOR THE FISCAL YEAR ENDED				
	NOVEMBER 29, 2003	NOVEMBER 30, 2002	DECEMBER 1, 2001	DECEMBER 2, 2000 (1)	NOVEMBER 27, 1999
Net Sales	\$51,173	\$62,965	\$80,036	\$118,185	\$128,800
Income (loss) before taxes	(1,545)	3,010	(15,488)	4,178	(3,000)
on income (2)					
Net income (loss) (2)	(1,370)	1,970	(8,623)	3,033	5,000
Earnings (loss) per share:					
Basic	(.26)	.38	(1.64)	.57	.50
Diluted	(.26)	.38	(1.64)	.57	.50
Total assets	58,075	81,229	131,528	151,412	152,100
Long-term debt	--	--	311	362	400
Stockholders' equity	48,929	64,571	113,503	123,855	123,700
Book value	9.38	12.33	21.79	23.45	22.00
per share (3)					
Cash dividends per share	4.00	10.00	.40	.475	.50
Weighted average number of shares outstanding:					
Basic	5,226,902	5,222,812	5,258,353	5,336,958	5,414,600
Diluted	5,226,902	5,222,812	5,258,353	5,336,958	5,419,100

(1) Fifty-three week period.

(2) Fiscal year ended December 1, 2001 amounts include asset impairment and restructuring charges of \$14,530,000.

(3) Computed by dividing stockholders' equity by the number of shares outstanding at year-end.

(8)

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates are those which we believe require our most significant judgments about the effect of matters that are inherently uncertain. A discussion of our critical accounting estimates, the underlying judgments and uncertainties used to make them and the likelihood that materially different estimates would be reported under different conditions or using different assumptions, is set forth below:

#### Accruals and Contingencies

We periodically assess the potential liabilities related to any lawsuits or claims brought against us, as well as for other known unasserted claims, including environmental, legal and tax matters. While it is typically very difficult to determine the timing and ultimate outcome of these matters, we use

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our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, we make estimates of the amount of insurance recoveries, if any. We accrue a liability when we believe a loss is probable and the amount of the loss can be reasonably estimated, in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies," as amended. See Note 9 in the accompanying financial statements for additional information concerning our contingencies.

Given the inherent uncertainty related to the eventual outcome of these matters and potential insurance recoveries, it is possible that all or some of these matters may be resolved for amounts materially different from any provisions or disclosures that we may have made with respect to their resolution. In addition as new information becomes available, we may need to reassess the amount of probable liability that needs to be accrued related to our contingencies. All such revisions in our estimates could materially impact our results of operations and financial position.

We maintain an accrual for workers compensation, which is classified as other current liabilities in our consolidated balance sheets. We determine the adequacy of the accrual by periodically evaluating our historical experience and trends related to workers compensation claims and payments, information provided to us by our insurance broker and industry experience and trends. If such information indicates that our accrual is overstated or understated, we will adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate.

### Revenue Recognition

We recognize our revenues upon shipment of the related goods. Allowances for estimated returns are provided when sales are recorded.

### Bad Debt

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(9)

### Impairment of Long-lived Assets

Whenever events or circumstances indicate that the carrying values of long-lived assets (including property, plant and equipment) may be impaired, we perform an analysis to determine the recoverability of the asset's carrying value. The carrying value of the asset includes the original purchase price (net of depreciation) plus the value of all capital improvements (net of depreciation). If the analysis indicates that the carrying value is not recoverable from future cash flows, we write down the asset to its estimated fair value and recognize an impairment loss. The estimated fair value is based on what we estimate the current sale price of the asset to be based on comparable sales information or other estimates of the asset's value. Any impairment losses we recognize are recorded as operating expenses. In 2001, we recognized \$13.2 million of impairment losses. We did not recognize any impairment losses in 2002. In 2003, the Company reviewed assets held for sale and determined an additional \$685,000 was required.

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We make estimates of the undiscounted cash flows from the expected future operations of the asset. In projecting the expected future operations of the asset, we base our estimates on future budgeted earnings before interest expense, income taxes, depreciation and amortization, or EBITDA, and use growth assumptions to project these amounts out over the expected life of the underlying asset. If actual conditions differ from those in our assumptions, the actual results of each asset's actual future operations could be significantly different from the estimated results we used in our analysis. Our operating results are also subject to the risks set forth under "Summary of Accounting Policies - Risk and Uncertainties."

### Results of Operations

#### FISCAL 2003 COMPARED TO FISCAL 2002

Net sales for the fiscal 2003 were \$51,173,000 as compared to \$62,965,000 in fiscal 2002, a decrease of 18.7%. Since 1998, a flood of low-cost foreign imports continued to take a sustained toll in the U.S. textile manufacturing sector and negatively impacted segment decline in sales and production

Apparel external sales for fiscal 2003 were \$39.1 million, a decrease of \$12.2 million or 23.8%, as compared to \$51.3 million for fiscal 2002.

Home Fashion and Accessories external sales for fiscal 2003 were \$4.2 million compared to \$4.7 million in fiscal 2002, a decrease of \$0.5 million or 10.6%.

Other external sales for fiscal 2003 were \$7.8 million, compared to \$7.0 million in fiscal 2002, an increase of \$0.8 million or 11.4%.

The decreases in the apparel and home fashions segments were due to the continued influx of low-cost foreign imports and continued weakness in the domestic textile industry. The increase in other is due primarily to our subsidiary, Gem Urethane Corporation.

The apparel and home fashions segments implemented measures beginning in fiscal 2001 to reduce operating costs including a reduction in the number of employees which reduced fixed overhead.

Gross margins as a percentage of sales decreased to 8.3% compared to 10.4% in the similar 2002 period. Lower sales volumes reduced operating schedules at production facilities. Due to lower average FIFO cost levels, LIFO inventory reserves decreased by \$607,000 and \$96,000 in fiscal 2003 and 2002, respectively. Management is hopeful that gross margins will show an improvement over last year's performance tempered, however, by the continuing deterioration in domestic textile manufacturing due to foreign imports and currency valuations issues.

(10)

Selling, general and administrative expenses decreased by \$1,371,000, or 18.6% as compared to fiscal year 2002. The decrease in expenses results primarily from the reduction in the number of employees and related expenses, moving its executive offices and showroom facilities to smaller premises in July 2002, and the continued effectiveness of the cost containment programs. The decreases also resulted from the gain on sales of fixed assets totaling \$443,000 and \$817,000 for fiscal 2003 and 2002, respectively.

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During fiscal 2003, the Company reviewed assets held for sale and determined an additional charge of \$685,000 was required.

For the fiscal year ended November 29, 2003, a charge of \$1,659,000 was recorded which represents certain amendments to the agreement with the Chief Executive Officer. See Note 9 to the Consolidated Financial Statements.

In March 2002, the Company settled a dispute without admitting liability for \$750,000. See Note 16 to the Consolidated Financial Statements.

Apparel operating loss for fiscal 2003 was \$4.6 million compared to an operating loss of \$0.7 million for fiscal 2002. Lower sales volume and lower selling margins contributed to the increase in operating loss. In addition, the financial results include other expenses of \$1.7 million, which represents agreement with the Chief Executive Officer (See Note 9). This was allocated between segments with a majority included in the apparel segment (See Note 9). The financial results include a charge for asset impairment of fixed assets \$685,000.

Home Fashion and Accessories operating loss for fiscal 2003 was \$0.2, compared to an operating loss of \$1.1 million for fiscal 2002. In fiscal 2002, the financial results includes a charge of \$750,000 for settlement of a dispute without admitting liability. See Note 16 to the Consolidated Financial Statements.

Other segments operating income for fiscal 2003 was \$0.7 million compared to an operating income of \$0.2 million for fiscal 2002. Higher margins and reduction of costs increased operating income.

Interest and dividend income decreased by \$1,134,000 or 47.0% as compared to fiscal year 2002. On August 22, 2003, the Company distributed a second liquidating distribution of \$4.00 per share, or \$20,860,000. Accordingly, the Company had lower invested balances which were invested primarily in United States Treasury Obligations resulting in lower risks and lower yields. The Company realized gains from the sale of investment securities of \$1,266,000 in fiscal 2003 as compared to \$2,179,000 in fiscal 2002.

The Company realized a tax benefit for fiscal 2003 which had an effective tax rate of 11.3% as compared to an effective income tax rate of 34.6% in the comparative 2002 period. See Note 8 to the Consolidated Financial Statements.

As a result of these factors, the Company had a net loss of \$1,370,000, or \$0.26 basic and diluted loss per share, as compared to net income of \$1,970,000, or \$0.38 basic and diluted earnings per share in fiscal 2002.

### FISCAL 2002 COMPARED TO FISCAL 2001

Net sales for fiscal 2002 were \$62,965,000 as compared to \$80,036,000 in fiscal 2001, a decrease of 21.3%. The decrease was caused substantially by lower volume as business conditions within the domestic textile industry remained depressed, and low-cost foreign imports continued to take a toll on the U.S. textile manufacturing sector. These factors have negatively impacted sales and production.

Apparel external sales for fiscal 2002 were \$51.3 million, a decrease of \$9.6 million or 15.8%, as compared to \$60.9 million for fiscal 2001.

Home fashions and Accessories external sales for fiscal 2002 were \$4.7 million, a decrease of \$5.7 million or 55.0 %, as compared to \$10.4 million for fiscal 2001.

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(11)

Other external sales for fiscal 2002 were \$7.0 million, a decrease of \$1.8 million or 19.9%, as compared to \$8.8 million for fiscal 2001.

The decreases across our segments were due to a flood of low-priced imports from Asia, weak market conditions and a weak economy which has continued to take a toll on the U.S. textile manufacturing sector.

The apparel and home fashions segments implemented measures beginning in fiscal 2001 to reduce operating costs including a reduction in the number of employees which reduced fixed overhead.

Gross margins as a percentage of sales increased to 10.4% from 1.9% as compared to similar 2001 period. A more favorable product mix and the consolidation of three manufacturing facilities, combined with a reduction in costs due to employee terminations, a decrease in depreciation expense and other related costs resulted in the higher margins. Due to lower average FIFO cost levels, LIFO inventory reserves decreased by \$96,000 and \$1,518,000 in fiscal 2002 and fiscal 2001, respectively.

The financial results for the fiscal year ended December 1, 2001 include a charge of \$14,530,000, which includes \$13,230,000 for the writedown of fixed assets 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, and also include the building facilities in North Carolina. The marketability of the assets held for disposal are subject to worldwide economic conditions which can affect the sale of such buildings and machinery. Additionally, for the fiscal year ended December 1, 2001, the Company expended approximately \$1,300,000 to remove and transfer machinery and equipment to the Company's Mohican Mills facility which was included in the asset impairment and restructuring charges.

Selling, general and administrative expenses decreased by \$2,376,000, or 24.4%, as compared to fiscal year 2001. The decrease in expenses resulted primarily from the reduction in the number of employees and related expenses, moving executive offices and showroom facilities to smaller premises and the continued effectiveness of the cost containment programs. The decrease also resulted from the gain on sale of fixed assets totaling \$817,000 for fiscal 2002.

In March 2002, the Company settled a dispute without admitting liability for \$750,000. See Note 16 to the consolidated financial statements.

Apparel operating loss for fiscal 2002 was \$0.7 million as compared to an operating loss of \$22.3 million for fiscal 2001. A more favorable product mix and the consolidation of three manufacturing facilities, combined with a reduction in costs resulted in higher margins. In fiscal 2001, the financial results include a charge for impairment of fixed assets and restructuring charges of approximately \$13.8 million.

Home Fashions and Accessories operating loss for fiscal 2002 was \$1.1 million compared to an operating income of \$0.7 million for fiscal 2001. These decreases were due primarily to lower sales volume. Additionally, in fiscal 2002 the financial results includes a charge of \$750,000 for settlement of a dispute without admitting liability. See Note 16 to consolidated financial statements.

Other segments operating income for fiscal 2002 was \$0.2 million compared to an operating loss of \$1.1 million for fiscal 2001. Higher margins and

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reduction of costs increased operating income. In fiscal 2001, the financial results include a charge of approximately \$750,000 for impairment of fixed assets and a restructuring charge.

Interest and dividend income decreased by \$1,876,000, or 43.7% as compared to fiscal 2001. On June 24, 2002, the Company distributed an initial liquidating distribution of \$10.00 per share, or \$52,380,000. Accordingly, the Company had lower average invested balances which were invested primarily in United States Treasury obligations resulting in lower risks and lower yields. The Company realized gains from the sale of investment securities of \$2,179,000 in fiscal 2002 as compared to \$3,025,000 in fiscal 2001.

(12)

The effective income tax rate for fiscal 2002 was 34.6% compared to a tax benefit of 44.3% for fiscal 2001. The fiscal 2001 tax benefit included approximately \$1.5 million of certain tax reserves recorded in prior years, which were reversed in the fourth quarter of fiscal 2001 due to changes in estimates for tax contingency items.

As a result of these factors, the Company generated net income of \$1,970,000, or \$.38 basic and diluted per share in fiscal 2002. In fiscal 2001, the Company had a net loss of \$8,623,000 which included asset impairment and restructuring charges of \$9,590,000 net of income tax benefit. For fiscal 2001, basic and diluted losses per share were \$1.64, including asset impairment and restructuring charges of \$1.82 per share.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities in fiscal 2003 amounted to \$3,313,000, as compared to \$8,758,000 in fiscal 2002. Of this decrease, major changes were as follows: \$3,340,000 decrease in net income, \$2,743,000 in accounts receivable, \$1,094,000 in inventories, \$418,000 in compensation relating to acceleration of stock options, and \$216,000 to depreciation. These decreases were offset by \$685,000 in non-cash asset impairment, a decrease of \$913,000 in net gain on investment securities, \$273,000 in other current and other assets and \$374,000 in net gain on disposition of fixed assets.

Net proceeds from sales of investment securities were \$17,441,000 compared to \$38,650,000 for fiscal 2002. For the fiscal year ended November 29, 2003, the Company used the proceeds for the second liquidating distribution of \$4.00 per share or \$20,860,000. For the fiscal year ended November 30, 2002, the Company used proceeds for the initial distribution of 10.00 per share, or \$52,380,000.

Stockholders' equity was \$48,929,000, (\$9.38 book value per share), at November 29, 2003, as compared to \$64,571,000, (\$12.33 book value per share), at the previous fiscal year November 30, 2002. The reduction in stockholders equity was primarily due to the second liquidating dividend of \$4.00 per share declared on August 1, 2003 by the Company's Board of Directors, which was paid on August 22, 2003. This was partially offset by a re-classification of redeemable common stock to non-redeemable common stock. The Company's plan of liquidation provides the Company's officers and directors will continue to operate the Company's textile business in its current fashion and pursue the sale of the business a going concern. If the Company is not sold by May 2005, all assets will be transferred to a liquidating trust. The liquidating trust would then succeed to all our remaining assets, liabilities and obligations.

On February 18, 2004 the Company's Board of Directors declared a liquidating distribution of \$3.00 per share to be payable March 10, 2004 with a

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record date of February 28, 2004, which is expected to total approximately \$15.6 million.

In June 2003, the Company repurchased 22,984 shares of its common stock at \$9.48 per share from employees and directors with outstanding loans from the Company and offset the related payment against the loans due from such employees and directors, which were due as of May 31, 2003 with a one month grace period. The Company purchased the number of shares necessary for the employees and directors to pay off all outstanding loans, including interest.

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

### Inflation

Management does not believe that the effects of inflation have had a significant impact during fiscal years 2003, 2002 and 2001.

(13)

### COMMITMENTS

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 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 an agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment as determined by the Board. Accordingly, the Company recorded a charge of \$856,000, which was included in other expense for the 52 weeks ended November 29, 2003.

Such amendment to the Employment Agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately \$10,000,000 of shares of common stock from his estate. In consideration of Mr. Bitensky relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company. The Company transferred these policies having an aggregate cash surrender value at November 29, 2003 of approximately \$803,000. Accordingly, the Company recorded a charge of \$803,000, which was included in other expenses for the 52 weeks ended November 29, 2003.

### OFF BALANCE SHEET ARRANGEMENTS

The Company does not utilize off Balance Sheet arrangements.

### AGGREGATE CONTRACTUAL OBLIGATIONS

The following table provided information as of November 29, 2003.

#### CONTRACTUAL OBLIGATIONS

(In Thousands)

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PAYMENTS DUE BY PERIOD

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR (1)	1-3 YEARS	3-
Long - Term debt	\$ --	\$ --	\$ --	\$
Capital Lease Obligations	--	--	--	
Operating Leases	309	39	270	
Purchase Obligations	--	--	--	
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	2,526	--	2,526	
Total	\$ 2,835	\$ 39	\$ 2,526	\$

(1) On Feb.18, 2004 the Company's Board of Directors declared a liquidating distribution of \$3.00 per share to be payable on March 10, 2004 with a record date of February 28, 2004, which is expected to total approximately \$15.6 million.

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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 use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of them or other variations of them or comparable terminology.

Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to: our ability to find qualified buyers for our assets; overall economic and business conditions; our continuing ability to support the demand for our goods and services; competitive factors in the industries in which we compete; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; material contingencies provided for in a sale of our assets; de-listing of our common stock from the American Stock Exchange; our ability to retain key employees through any wind down period; and any litigation arising as a result of our plan to wind down our operations. These risks and uncertainties should be considered in evaluating any

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forward-looking statements contained in the Form 10-K.

We undertake no obligation to update or revise a forward-looking statement, whether as a result of new information, future events, or otherwise, other than required by law.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See "Summary of Accounting Policies - Risks And Uncertainties" and "-Investments" in the Consolidated Financial Statements attached hereto. See also Note 2 of the Notes to Consolidated Financial Statements.

### ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the Consolidated Financial Statements, the Notes to Consolidated Financial Statements and the Consolidated Financial Statements Schedules attached hereto.

### ITEM 9 CHANGES IN DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable

(15)

### ITEM 9A. CONTROLS AND PROCEDURES

(A) 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 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 that material information required to be disclosed by us in such reports is accumulated, organized and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriated, to allow timely decisions regarding required disclosure.

(B) INTERNAL CONTROL OVER FINANCIAL REPORTING. There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934 , as amended) that occurred during Fab's most recent quarter that has materially affected, or is reasonably likely to materially affect Fab'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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PART III

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### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

#### EXECUTIVE OFFICERS

The following table sets forth certain information concerning our executive officers as of February 13, 2004.

NAME ----	AGE ---	POSITIONS AND OFFICES -----
Samson Bitensky.....	84	Chairman of the Board of Directors and Chief Executive Officer
Steven Myers.....	55	President, Chief Operating Officer
David A. Miller.....	66	Vice President-Finance, Treasurer, and Chief Financial Officer
Jerry Deese.....	52	Vice President-Controller of Plant Operations
Sam Hiatt .....	56	Vice President-Sales

Each of our executive officers serves at the pleasure of the Board of Directors and until his or her successor is duly elected and qualified.

SAMSON BITENSKY was one of Fab's founders in 1966 and has served as Chairman of the Board of Directors and Chief Executive Officer of Fab since such time. Mr. Bitensky also served as President of Fab from 1970 until May 1, 1997.

STEVEN MYERS, an attorney, has been employed by Fab in various senior administrative and managerial capacities since 1979. He served as Vice President - Sales for more than five years prior to May 1988 and as Vice President from May 1988 to May 1, 1997 and Co-President, Chief Operating Officer from May 1, 1997 to November 27, 2001. On November 27, 2001, he became President, Chief Operating Officer upon the retirement of our former Co-President, Stanley August. Mr. Myers is the son-in-law of Mr. Bitensky.

DAVID A. MILLER has been employed by Fab since 1966 and has served as Controller from 1973 until December 7, 1995, as Vice President - Finance and Treasurer since December 7, 1995, and as Chief Financial Officer since May 1, 1997.

JERRY DEESE has been employed by Fab in various senior administrative and managerial capacities since 1978. Mr. Deese served as Divisional Controller from 1994 until 1998 and has served as Vice President-Controller of Plant Operations since May 12, 1998.

SAM HIATT has been employed by Fab since 1978 and previously had various management responsibilities in the warp knit area. He has served as Vice President-Sales since May 12, 1998.

Other information required by this item is incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended ("Regulation 14A").

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### ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end

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of the fiscal year covered by this Annual Report on Form 10-K pursuant to Regulation 14A.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K pursuant to Regulation 14A.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K pursuant to Regulation 14A.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K pursuant to Regulation 14A.

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## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

- (a) (1) Financial Statements: See the Index to Consolidated Financial Statements at page F-2.
- (2) Financial Statement Schedules: See the Index to Consolidated Financial Statements Schedules at page S-2.
- (3) Exhibit List

EXHIBIT	DESCRIPTION OF EXHIBIT
-----	-----
3.1	- Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 27, 1993 (the "1993 10-K").
3.2	- Amended and Restated By-laws, incorporated by reference to Exhibit 3.2 to the 1993 10-K.
3.3	- Certificate of Amendment of Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 3, 1994 (the "1994 10-K").
3.4	- Amendments to the Amended and Restated By-laws, incorporated by reference to Exhibit 3.4 of the Company's Annual Report on Form 10-K for the fiscal year ended November 29, 1997.
3.5	- Amendment to the Amended and Restated By-laws, incorporated by

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reference to Exhibit 3.5 of the Company's Annual Report on Form 10-K for the fiscal year ended November 27, 1999.

- 4.1 - Specimen of Common Stock Certificate, incorporated by reference to Exhibit 4-A to Registration Statement No. 2-30163, filed on November 4, 1968.
- 4.2 - Rights Agreement dated as of June 6, 1990 between the Company and Manufacturers Hanover Trust Company, as Rights Agent, which includes as Exhibit A the form of Rights Certificate and as Exhibit B the Summary of Rights to purchase Common Stock, incorporated by reference to Exhibit 4.2 to the 1993 10-K.
- 4.3 - Amendment to the Rights Agreement between the Company and Manufacturers Hanover Trust Company dated as of May 24, 1991, incorporated by reference to Exhibit 4.3 to the 1993 10-K.
- 10.1 - Employment Agreement dated as of March 1, 1993, between the Company and Samson Bitensky, incorporated by reference to Exhibit 10.2 to the 1993 10-K.

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EXHIBIT	DESCRIPTION OF EXHIBIT
-----	-----
10.2	- Fab Industries, Inc. Hourly Employees Retirement Plan (the "Retirement Plan"), incorporated by reference to Exhibit 10.3 to the 1993 10-K.
10.3	- Amendment to the Retirement Plan effective December 11, 1978, incorporated by reference to Exhibit 10.4 to the 1993 10-K.
10.4	- Amendment to the Retirement Plan effective December 1, 1981, incorporated by reference to Exhibit 10.5 to the 1993 10-K.
10.5	- Amendment to the Retirement Plan dated November 21, 1983, incorporated by reference to Exhibit 10.6 to the 1993 10-K.
10.6	- Amendment to the Retirement Plan dated August 29, 1986, incorporated by reference to Exhibit 10.7 to the 1993 10-K.
10.7	- Amendment to the Retirement Plan effective as of December 1, 1989, incorporated by reference to Exhibit 10.8 to the 1993 10-K.
10.8	- Amendment to the Retirement Plan dated September 21, 1995, incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 2, 1995 (the "1995 10-K").
10.9	- Fab Lace, Inc. Employees Profit Sharing Plan (the "Profit Sharing Plan"), incorporated by reference to Exhibit 10.9 to the 1993 10-K.
10.10	- Amendment to the Profit Sharing Plan effective December 1, 1978, incorporated by reference to Exhibit 10.10 to the 1993 10-K.
10.11	- Amendment dated December 1, 1985 to the Profit Sharing Plan, incorporated by reference to Exhibit 10.11 to the 1993 10-K.

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- 10.12 - Amendment dated February 5, 1987 to the Profit Sharing Plan, incorporated by reference to Exhibit 10.12 to the 1993 10-K.
- 10.13 - Amendment dated December 24, 1987 to the Profit Sharing Plan, incorporated by reference to Exhibit 10.13 to the 1993 10-K.
- 10.14 - Amendment dated June 30, 1989 to the Profit Sharing Plan, incorporated by reference to Exhibit 10.14 to the 1993 10-K.
- 10.15 - Amendment dated February 1, 1991 to the Profit Sharing Plan, incorporated by reference to Exhibit 10.15 to the 1993 10-K.
- 10.16 - Amendment dated September 1, 1995 to the Profit Sharing Plan, incorporated by reference to Exhibit 10.17 to the 1995 10-K.
- 10.17 - Lease dated as of December 8, 1988 between Glockhurst Corporation, N.V. and the Company, incorporated by reference to Exhibit 10.16 to the 1993 10-K.

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EXHIBIT	DESCRIPTION OF EXHIBIT
10.18	- Lease Modification Agreement dated April 2, 1991 between Glockhurst Corporation, N.V. and the Company, incorporated by reference to Exhibit 10.17 to the 1993 10-K.
10.19	- Second Lease Modification Agreement dated May 23, 1996 between 200 Madison Associates, L.P. and the Company, incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1996.
10.20	- Third Lease Modification Agreement dated April 24, 2000 between 200 Madison Associates, L.P. and the Company, incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001.
10.21	- Fourth Lease Modification Agreement dated April 11, 2002 between 200 Madison Associates, L.P. and the Company, incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002.
10.22	- Lease dated as of March 1, 1979 between City of Amsterdam Industrial Development Agency and Gem Urethane Corp., incorporated by reference to Exhibit 10.18 to the 1993 10-K.
10.23	- Lease dated as of January 1, 1977 between City of Amsterdam Industrial Development Agency and Lamatronics Industries, Inc., incorporated by reference to Exhibit 10.19 to the 1993 10-K.
10.24	- Form of indemnification agreement between the Company and its officers and directors, incorporated by reference to Exhibit 10.20 to the 1993 10-K.
10.25	- Fab Industries, Inc. Employee Stock Ownership Plan effective as of Nov. 25, 1991, incorporated by reference to Exhibit 10.24 to the 1993 10-K.
10.26	- Amendment dated September 21, 1995 to the Employee Stock Ownership

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Plan, incorporated by reference to Exhibit 10.27 to the 1995 10-K.

- 10.27 - Fab Industries, Inc. Non-Qualified Executive Retirement Plan dated as of November 30, 1990, incorporated by reference to Exhibit 10.25 to the 1993 10-K.
- 10.28 - Form of loan agreement, dated May 30, 2002, entered into between Fab Industries, Inc. and certain of its executive officers and directors, incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002.
- 10.29 - Amendment dated July 25, 2003 to the Employment Agreement between Fab Industries, Inc. and Samson Bitensky, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended August 30, 2003.

(21)

EXHIBIT	DESCRIPTION OF EXHIBIT
-----	-----
21	- Subsidiaries of the Company, incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 2, 2000.
*31.1	- Certification of Samson Bitensky pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	- Certification of David A. Miller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	- Certification of Samson Bitensky pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	- Certification of David A. Miller pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith.

(b) Reports on Form 8-K.

The Company furnished on October 14, 2003 a report on Form 8-K announcing its earnings for the 39 weeks and 13 weeks ended August 30, 2003.

The Company furnished on October 23, 2003 a report on Form 8-K announcing that it had received a preliminary offer from management-led buyout group to acquire the business, as a going concern, for \$19,556,366 (or \$3.75 per share), subject to certain terms and conditions.

The Company furnished on November 14, 2003 a report on Form 8-K announcing a special committee of Fab's Board of Directors, which was appointed on October 23, 2003, following receipt by Fab of a management-led buy out group's preliminary non-binding offer for

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all of Fab's assets, has begun to consider the offer and to review various alternatives to maximize stockholder value. The report also announces that on November 10, 2003 a stockholder filed a complaint in Delaware Chancery Court, captioned Belanger v. Fab Industries Inc. ET. AL. DEL. Ch., C.A. No. 054-N, naming as defendants Fab Industries, Inc. and each of its directors, seeking class certification, preliminary and permanent injunction against the proposed management-led buy out, and unspecified damages.

The Company furnished on November 26, 2003 a report on Form 8-K announcing that the management-led buyout group that had previously made a preliminary offer to acquire the business, as a going concern, has withdrawn its offer.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS  
FORM 10-K ITEM 8  
FISCAL YEARS ENDED NOVEMBER 29, 2003, NOVEMBER 30, 2002 AND  
DECEMBER 1, 2001

FAB INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS  
FORM 10-K ITEM 8  
FISCAL YEARS ENDED NOVEMBER 29, 2003, NOVEMBER 30, 2002,  
AND DECEMBER 1, 2001

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders  
Fab Industries, Inc.  
New York, New York

We have audited the accompanying consolidated balance sheets of Fab Industries, Inc. and subsidiaries as of November 29, 2003 and November 30, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the fiscal years ended November 29, 2003, November 30, 2002, and December 1, 2001. We have also audited the financial statement schedule listed in the index on page S-2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the summary of accounting policies, on March 1, 2002, the Company's Board of Directors adopted resolutions which authorize, subject to shareholder approval, the sale of the business pursuant to a plan of liquidation. The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fab Industries, Inc. and subsidiaries at November 29, 2003 and November 30, 2002, and the results of their operations and their cash flows for the fiscal years ended November 29, 2003, November 30, 2002, and December 1, 2001 in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/BDO SEIDMAN, LLP  
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New York, New York

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February 10, 2004, except for Note 17, as to which the date is February 18, 2004

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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	NOVEMBER 29, 2003	NOVEMBER 29, 2002
<hr/>		
ASSETS		
CURRENT:		
Cash and cash equivalents (Note 1)	\$ 3,397,000	\$
Investment securities available-for-sale (Note 2)	29,004,000	
Accounts receivable, net of allowance of \$900,000 and \$1,000,000 for doubtful accounts	7,171,000	
Inventories (Note 3)	5,531,000	
Deferred income taxes (Note 8)	506,000	
Other current assets	701,000	
<hr/>		
TOTAL CURRENT ASSETS	46,310,000	
PROPERTY, PLANT AND EQUIPMENT - NET (NOTE 4)	9,484,000	
DEFERRED TAX ASSET (NOTE 8)	--	
OTHER ASSETS (NOTE 7)	2,281,000	
<hr/>		
	\$58,075,000	
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT:		
Accounts payable	\$ 1,913,000	\$
Corporate income and other taxes	861,000	
Accrued payroll and related expenses	763,000	
Other current liabilities	1,106,000	
Deferred income taxes (Note 8)	--	
<hr/>		
TOTAL CURRENT LIABILITIES	4,643,000	
DEFERRED INCOME TAXES (NOTE 8)	52,000	
OTHER NONCURRENT LIABILITIES (NOTE 7)	4,451,000	
<hr/>		
TOTAL LIABILITIES	9,146,000	
<hr/>		
COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 9)		
REDEEMABLE COMMON STOCK (NOTE 9)	--	
<hr/>		
STOCKHOLDERS' EQUITY (NOTES 2, 6, 7, AND 9):		
Preferred stock, \$1 par value - shares authorized 2,000,000; none issued	--	
Common stock, \$.20 par value - shares authorized 15,000,000; issued 6,724,944 and 6,724,944	1,345,000	
Retained earnings	85,225,000	
Accumulated other comprehensive gain (loss)	(186,000)	

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Cost of common stock held in treasury - 1,509,913 and 1,486,929 shares	(37,455,000)
Notes receivable from stockholders (Note 6)	--
<hr style="border-top: 1px dashed black;"/>	
TOTAL STOCKHOLDERS' EQUITY	48,929,000
<hr style="border-top: 1px dashed black;"/>	
	\$58,075,000
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SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES  
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS

=====

FISCAL YEAR ENDED

	NOVEMBER 29, 2003	NOVEMBER 30, 2002
<hr style="border-top: 1px dashed black;"/>		
NET SALES (NOTE 14)	\$ 51,173,000	\$62,965,000
COST OF GOODS SOLD	46,918,000	56,412,000
<hr style="border-top: 1px dashed black;"/>		
GROSS PROFIT	4,255,000	6,553,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,001,000	7,372,000
ASSET IMPAIRMENT AND RESTRUCTURING CHARGES (NOTE 12)	685,000	--
OTHER EXPENSES (NOTES 9 AND 16)	1,659,000	750,000
<hr style="border-top: 1px dashed black;"/>		
OPERATING LOSS	(4,090,000)	(1,569,000)
<hr style="border-top: 1px dashed black;"/>		
OTHER INCOME (EXPENSE):		
Interest and dividend income (Note 11)	1,279,000	2,413,000
Interest expense	--	(13,000)
Net gain on investment securities (Note 2)	1,266,000	2,179,000
<hr style="border-top: 1px dashed black;"/>		
TOTAL OTHER INCOME	2,545,000	4,579,000
<hr style="border-top: 1px dashed black;"/>		
INCOME (LOSS) BEFORE TAXES ON INCOME	(1,545,000)	3,010,000
INCOME TAX EXPENSE (BENEFIT) (NOTE 8)	(175,000)	1,040,000
<hr style="border-top: 1px dashed black;"/>		
NET INCOME (LOSS)	\$ (1,370,000)	\$ 1,970,000
<hr style="border-top: 1px dashed black;"/>		
EARNINGS (LOSS) PER SHARE (NOTE 13):		
Basic	\$ (.26)	\$ .38
Diluted	\$ (.26)	\$ .38
<hr style="border-top: 1px dashed black;"/>		
CASH DIVIDENDS DECLARED PER SHARE	\$ 4.00	\$ 10.00
<hr style="border-top: 3px double black;"/>		

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SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES  
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	TOTAL	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	EMPLOYEE OWNERSHIP
		NUMBER OF SHARES	AMOUNT			
Balance, December 2, 2000	\$123,855,000	6,591,944	\$1,319,000	\$6,967,000	\$154,947,000	\$
Net loss - fiscal 2001	(8,623,000)	--	--	--	(8,623,000)	
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	631,000	--	--	--	--	--
Total comprehensive loss	(7,992,000)	--	--	--	--	--
Cash dividends	(2,100,000)	--	--	--	(2,100,000)	
Purchase of treasury stock	(1,050,000)	--	--	--	--	--
Payment of loan from ESOP (Note 7)	790,000	--	--	--	--	--
Balance, December 1, 2001	113,503,000	6,591,944	1,319,000	6,967,000	144,224,000	
Net Income - fiscal 2002	1,970,000	--	--	--	1,970,000	
Minimum pension liability adjustment of \$164,000, net of tax benefit of \$59,000	(105,000)	--	--	--	--	--
Total comprehensive income	1,865,000	--	--	--	--	--
Cash dividends	(52,380,000)	--	--	(6,641,000)	(45,739,000)	
Acceleration of stock options (Note 6)	418,000	--	--	418,000	--	--
Exercise of stock options (Note 6)	1,445,000	133,000	26,000	1,640,000	--	--
Purchase of treasury stock	(280,000)	--	--	17,000	--	--
Termination of Employee Stock Ownership Plan	--	--	(2,401,000)	--	3,957,000	
Balance, November 30, 2002	64,571,000	6,724,944	1,345,000	--	100,455,000	
Net loss - fiscal 2003	(1,370,000)	--	--	--	(1,370,000)	
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	(223,000)	--	--	--	--	--
Minimum pension liability of \$300,000 net of tax benefit of \$108,000	(192,000)	--	--	--	--	--
Total comprehensive loss	(1,785,000)	--	--	--	--	--

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Cash dividends	(20,860,000)	--	--	--	(20,860,000)
Repayment of notes receivable from stockholders	221,000	--	--	--	--
Purchase of treasury stock	(218,000)	--	--	--	--
Reclass of redeemable common stock to non redeemable common stock	7,000,000	--	--	--	7,000,000
-----					
Balance, November 29, 2003	\$48,929,000	6,724,944	\$1,345,000	--	\$85,225,000
=====					

	TREASURY STOCK		NOTES
	NUMBER	COST	RECEIVABLE
	OF SHARES		FROM
			STOCKHOLDERS
-----			
Balance, December 2, 2000	(1,310,458)	\$ (34,334,000)	--
Net loss - fiscal 2001	--	--	--
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	--	--	--
Total comprehensive loss	--	--	--
Cash dividends	--	--	--
Purchase of treasury stock	(73,116)	(1,050,000)	--
Payment of loan from ESOP (Note 7)	--	--	--
-----			
Balance, December 1, 2001	(1,383,574)	\$ (35,384,000)	--
Net Income - fiscal 2002			--
Minimum pension liability adjustment of \$164,000, net of tax benefit of \$59,000			--
Total comprehensive income			--
Cash dividends			--
Acceleration of stock options (Note 6)			--
Exercise of stock options (Note 6)			(221,000)
Purchase of treasury stock	(16,899)	(297,000)	--
Termination of Employee Stock Ownership Plan	(86,456)	(1,556,000)	--
-----			
Balance, November 30, 2002	(1,486,929)	(37,237,000)	(221,000)
Net loss - fiscal 2003	--	--	--
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	--	--	--
Minimum pension liability of \$300,000 net of tax benefit of \$108,000			--
Total comprehensive loss	--	--	--
Cash dividends	--	--	--
Repayment of notes receivable from			--

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stockholders	--	--	221,000
Purchase of treasury stock	(22,984)	(218,000)	--
Reclass of redeemable common stock to non redeemable common stock	--	--	--
-----			
Balance, November 29, 2003	(1,509,913)	\$ (37,455,000)	--
=====			

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES  
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(NOTE 10)

FISCAL YEAR ENDED	NOVEMBER 29, 2003	NOVEMBER 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,370,000)	\$ 1,370,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts	400,000	200,000
Depreciation and amortization	1,927,000	2,000,000
Deferred income taxes	214,000	1,000,000
Non-cash asset impairment and restructuring charges	685,000	1,000,000
Compensation relating to acceleration of stock options	--	1,000,000
Net gain on investment securities	(1,266,000)	(2,000,000)
Gain on disposition of fixed assets	(443,000)	1,000,000
Decrease (increase) in:		
Accounts receivable	(23,000)	2,000,000
Inventories	2,855,000	3,000,000
Other current assets	166,000	1,000,000
Other assets	915,000	1,000,000
Increase (decrease) in:		
Accounts payable	(942,000)	1,000,000
Accruals and other liabilities	198,000	1,000,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,316,000	8,000,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(267,000)	1,000,000
Proceeds from sale of property and equipment	621,000	1,000,000
Proceeds from sales of investment securities	17,441,000	38,000,000
Acquisition of investment securities	--	1,000,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	17,795,000	39,000,000

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CASH FLOWS FROM FINANCING ACTIVITIES:

Purchase of treasury stock	--	
Principal repayment on loan to employee stock ownership plan	--	
Dividends	(20,860,000)	(52)
Exercise of stock options	--	1
<hr/>		
NET CASH USED IN FINANCING ACTIVITIES	(20,860,000)	(51)
<hr/>		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	251,000	(3)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,146,000	6
<hr/>		
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,397,000	\$ 3

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SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES  
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

SUMMARY OF ACCOUNTING POLICIES

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BUSINESS

Fab Industries, Inc. (the "Company") is a manufacturer of knitted apparel fabrics, including laces and finished home products, as well as laminated fabrics. The Company's sales are primarily made to United States customers.

The Company's Board of Directors has determined that it is in the best interests of its stockholders to sell the Company's textile business as a going concern. In order to maximize stockholder value, the Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholder approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002. The Plan provides the Company's officers and directors will continue to operate the Company's textile business in its current fashion, and pursue a sale of the business as a going concern. The Company's Board of Directors has approved the engagement of McFarland Dewey & Co., LLC financial advisors in November 2002 to assist with the sale of the business. The accompanying financial statements have been prepared on a going concern basis. There can be no assurance, however, that the Company will be successful in selling its business or if it does sell the business, that it will be able to recover the

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full value of its assets, particularly its property, plant and equipment. On August 1, 2003 and May 30, 2002, the Company's Board of Directors declared a liquidating distribution of \$4.00 per share and \$10.00 per share, respectively, which resulted in a payment to stockholders of \$20,860,000 and \$52,380,000 in August 2003 and June 2002, respectively.

The Company's plan of liquidation provides the Company's officers and directors will continue to operate the Company's textile business in its current fashion and pursue the sale of the business as a going concern. If the Company is not sold by May 2005, all assets will be transferred to a liquidating trust. The liquidating trust would then succeed to all our remaining assets, liabilities and obligations.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

SUMMARY OF ACCOUNTING POLICIES

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PRINCIPLES OF  
CONSOLIDATION

The financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Significant intercompany transactions and balances have been eliminated.

FISCAL YEAR

The Company's fiscal year ends on the Saturday closest to November 30.

Each of Fiscal 2003, 2002, and 2001 had fifty-two weeks.

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 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 2003 and fiscal 2002, that custodian had an average balance of approximately \$9.6 million and \$13.3 million, respectively, of the Company's cash under investment which from time to time during such periods was invested entirely in equity securities. At November 29, 2003, that custodian had approximately \$7.8 million of the Company's cash under investments, which were invested in U.S. Treasury obligations. In August 2003, the Company liquidated \$2.5 million from that custodian as part of the liquidating dividend. The Company's investment policy currently permits up to 50% of the Company's portfolio to be held by the custodian.

Concentrations of credit risk with respect to trade receivables are limited due to a 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 November 29, 2003 and November 30, 2002, 8% and 11%, respectively, of the accounts receivable outstanding were due from factors.

ACCOUNTS RECEIVABLE AND  
ALLOWANCE FOR DOUBTFUL  
ACCOUNTS

The Company's accounts receivable are customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts.

The Company evaluates its accounts receivable on an ongoing basis and establishes an allowance for doubtful accounts based on specific customer circumstances and on its historical rate of write-offs. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in an overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company believes the allowance for doubtful accounts as of November 29, 2003 is adequate, however, actual write-offs might exceed the recorded allowance.

SUMMARY OF ACCOUNTING POLICIES

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CASH  
EQUIVALENTS

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

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 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.

INVENTORIES

Inventories are valued at the lower of cost or market. For a portion of the inventories, cost is determined by the last-in, first-out (LIFO) method with the balance being determined by the first-in, first-out (FIFO) method.

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.

In accordance with SFAS 133, the Company's policy is to recognize all derivatives instruments as either assets or liabilities on

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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.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

### SUMMARY OF ACCOUNTING POLICIES

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PROPERTY, PLANT AND  
EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation is computed using principally the straight-line method. The range of estimated useful lives is 15 to 33 years for buildings and building improvements, 4 to 10 years for machinery and equipment, 10 years for leasehold improvements and 5 years for trucks and automobiles.

LONG-LIVED ASSETS

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell. During fiscal 2003, the Company reviewed assets held for sale and determined an additional charge of \$685,000 was required. During fiscal 2001, the Company recorded asset impairment and restructuring charges. See Note 12 of the notes to the financial statements.

RESEARCH AND  
DEVELOPMENT COSTS

Research and development costs are charged to expenses in the year incurred and amounted to \$850,000, \$1,690,000, and \$1,999,000 in fiscal 2003, 2002 and 2001, respectively.

ACCOUNTING FOR  
STOCK-BASED COMPENSATION

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

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income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123. See Note 6 for disclosure of assumptions utilized in the calculation of fair value. The Company's stock option plans were terminated subsequent to the fiscal year ended November 30, 2002.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

SUMMARY OF ACCOUNTING POLICIES

	2003 ----	2002 ----	
	(In thousands, except per share)		
Net Income (loss) as reported	\$ (1,370)	\$1,970	\$
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	(130)	
Pro forma net income (loss)	\$ (1,370)	\$1,840	\$
Basic and diluted net income (loss) per share-As reported	\$ (0.26)	\$0.38	\$
Pro forma	\$ (0.26)	\$0.35	\$

TAXES ON INCOME

The Company follows the liability method of accounting for income taxes. Accordingly, deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes.

EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is based on the weighted average number of common shares outstanding during the fiscal year. Diluted earnings per share is based on the weighted average number of common shares and dilutive potential common shares outstanding during the fiscal year. There were no dilutive potential common shares outstanding in fiscal 2003. The Company's dilutive potential common shares outstanding during fiscal 2002 and 2001 resulted entirely from dilutive stock options. For fiscal 2002 and 2001, potentially dilutive securities that related to shares issuable upon the exercise of stock options granted by the Company

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were excluded, as their effect was antidilutive. See Note 13 of notes to the financial statements.

### REVENUE RECOGNITION

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

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

### SUMMARY OF ACCOUNTING POLICIES

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#### EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2002, the FASB issued SFAS 146 "Accounting for Restructuring Costs". SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS 146, a company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS 146 requires a company to disclose information about its exit and disposal activities, the related costs and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with an earlier adoption encouraged. Under SFAS 146, a company may not restate its previously issued financial statements and the new statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3. The adoption of this statement did not have a material impact on the Company's financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of the Indebtedness of Others, with addresses the accounting for and disclosure of guarantees. Interpretation No. 45 requires a guarantor to recognize a liability for the fair value of a guarantee at inception.

The recognition of the liability is required even it is not probable that the payments will be required under the guarantee. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002. The initial recognition and measurement provisions are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The Company's adoption of Interpretation No. 45 did not have a material effect on the Company's consolidated financial statements.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

SUMMARY OF ACCOUNTING POLICIES

=====

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation - Transaction and Disclosure". This Statement amends SFAS No. 123, "Accounting for Stock Based Compensation" to provide alternative methods of transition for a voluntary change to fair market value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both the annual and interim financial statements about the method used on reported results. The Statement has varying effective dates commencing with interim periods beginning after December 15, 2002. The Company plans to continue using the intrinsic value method for stock based compensation.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities. The objective of this interpretation is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. A Company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected returns if they occur. Interpretation No.46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The Interpretation became effective upon issuance.

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The Company's adoption of this interpretation did not have an effect on its consolidated financial statements.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

SUMMARY OF ACCOUNTING POLICIES

=====

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement affects the classification, measurement and disclosure requirements of the following three types of freestanding financial instruments: 1) mandatorily redeemable shares, which the issuing company is obligated to buy back with cash or other assets; 2) instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, which includes put options and forward purchase contracts; and 3) obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominately to a variable such as a market index, or varies inversely with the value of the issuers' shares. In general, SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after Fiscal 2004. The Company's adoption of SFAS No. 150 did not have an effect on the Company's consolidated financial statements.

RECLASSIFICATIONS

Certain prior fiscal years' accounts have been reclassified for comparative purposes.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- =====
- |    |                           |   |
|----|---------------------------|---|
| 1. | CASH AND CASH EQUIVALENTS | Cash and cash equivalents at November 29, 2003 and November 30, 2002 consisted of the following (in thousands): |
|----|---------------------------|---|

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	2003
Cash	\$ 549
Taxable and tax-free short-term debt instruments	2,848
	\$3,397

2. INVESTMENT  
SECURITIES

Investment securities available-for-sale at November 29, 2003 and November 30, 2002 consisted of the following (in thousands):

	COST	GROSS UNREALIZED HOLDING GAIN	GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
2003:				
Equities	\$ 750	\$ 17	\$ --	\$
U.S. Treasury obligations	27,519	418	--	
Corporate bonds	253	--	(250)	
Money market	297	--	--	
	\$28,819	\$ 435	\$ (250)	
2002:				
Equities	\$ 750	\$ --	\$ --	\$
U.S. Treasury obligations	32,411	617	--	
Corporate bonds	7,748	194	(254)	
Money market	4,085	--	--	
	\$44,994	\$ 811	\$ (254)	

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying values and approximate fair values of investments in debt securities available-for-sale, at November 29, 2003 and November 30, 2002, by contractual maturity are as shown below:



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	NOVEMBER 29, 2003		NOVEMBER 30, 2002	
	COST	FAIR VALUE	COST	FAIR VALUE
-----				
Maturing in one year or less	\$ 14,875	\$ 14,978	\$ 10,064	
Maturing after one year through five years	11,589	11,648	28,054	
Maturing after five years through ten years	--	--	259	
Ten years and over	1,308	1,314	1,782	
-----				
	\$ 27,772	\$ 27,940	\$ 40,159	
=====				

Gross and net realized gains and losses on sales of investment securities were:

	2003	2002
-----		
Gross realized gains	\$ 3,980	\$ 6,653
Gross realized losses	(2,714)	(4,474)
-----		
Net realized gain	\$ 1,266	\$ 2,179
=====		

Other comprehensive income (loss) for fiscal 2003, 2002, and 2001 consisted of the following (in thousands):

	2003	2002
-----		
Unrealized holding gains arising during the year, net of tax	\$ 537	\$1,307
Reclassification adjustment, net of tax	(760)	(1,307)
-----		
Other comprehensive income (loss), net of tax	\$ (233)	--
=====		

FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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During Fiscal 2003, 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 November 29, 2003 and November 30, 2002, the Company had no such investments, but will continue to invest in such equities in the future.

Realized gains or (losses) on purchased short-term S&P 100 index put options and sold short-term S&P 100 call options during fiscal 2003, 2002, and 2001 were approximately \$(874,000), \$(1,463,000), and \$925,000, respectively.

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.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3. INVENTORIES Inventories at November 29, 2003 and November 30, 2002 consisted of the following (in thousands, except for percentages):

-----  
2003

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Raw materials	\$ 1,446	\$
Work-in-process	1,867	
Finished goods	2,218	
	-----	
	\$ 5,531	\$

Approximate percentage of  
inventories valued under LIFO  
method 61%

Excess of FIFO valuation over LIFO valuation	\$ 1,007	\$
	=====	

In fiscal 2003, 2002, and 2001 the liquidation of certain LIFO layers increased cost of goods sold by \$925,000, \$503,000, and \$1,909,000 respectively. The inventories in these LIFO layers were acquired at higher costs than current costs.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment at November 29, 2003 and November 30, 2002 consisted of the following (in thousands):

	2003	
	-----	
Land and improvements	\$ 682	\$
Buildings and improvements	7,323	
Machinery and equipment	22,255	
Trucks and automobiles	679	
Office equipment	287	
Leasehold improvements	548	
Assets held for sale (Note 12)	2,013	
	-----	
	33,787	
Less: Accumulated depreciation and amortization	24,303	
	-----	
	\$ 9,484	\$
	=====	

5. OBLIGATIONS UNDER During fiscal 2002, the capital lease liability was

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CAPITAL LEASES            forgiven by the lessor, resulting in other income of \$339,000, which was included in selling, general and administrative expenses for fiscal 2002.

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FAB INDUSTRIES, INC.  
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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6.            STOCK  
              COMPENSATION  
              PLANS

STOCK OPTION PLAN

In May 2001 and May 1997, the Board of Directors adopted and the shareholders approved two new stock option plans providing for the grant of up to 200,000 shares and 175,000 shares of common stock, respectively, at any time over the next ten years from the date such plans were adopted. These stock option plans have been terminated subsequent to the fiscal year ended November 30, 2002.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan, on May 30, 2002, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (including employees and directors) had returned to the Company the appropriate forms (representing options held by all but one optionee, who exercised via payment to the Company) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. The amount loaned to the employees and directors to exercise their options was approximately \$1,495,000, which was repaid as of June 13, 2003. These options were subject to variable accounting at each reporting period, until the related loans were repaid. In June 2003, the Company repurchased 22,984 shares of its common stock at \$9.48 per share from employees and directors with outstanding loans from the Company to offset the related payment of the loans due from such employees and directors, which were due as of May 31, 2003 with a one month grace period. The Company purchased the number of shares necessary for the employees and directors to pay off all outstanding loans, including interest. In fiscal 2003 and 2002 no compensation costs was recorded related to variable accounting since the market price of the Company's stock did not change significantly from the date the options were exercised to the date the loans were repaid in fiscal 2003 and 2002. Based on the acceleration of certain stock options, the Company recorded a charge of approximately \$418,000

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to compensation expense and an increase to additional paid-in capital in fiscal 2002. As of November 29, 2003 there were no outstanding options under either of the 2001 stock option plan or the 1997 stock option plan.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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There were no options granted in fiscal 2003 and 2002.

The weighted average fair value of options granted was \$3.67 per share in fiscal 2001.

For purposes of pro forma disclosure, the estimated fair value of the options are amortized to expense over the vesting period of the options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for fiscal 2001 grants:

-----	
Dividends	\$ .40 to \$.70 per share
Volatility	21.4% to 29.2%
Risk-free interest	4.54% to 5.00%
Expected term	1 to 10 years
-----	

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Data regarding the Company's stock option plan follows:

WEIGHTED  
EXERCISE  
SHARES PER S

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Shares under option, December 2, 2000	162,700	\$12.
Options granted	8,000	12.
Options exercised	--	
Options canceled	(27,500)	(12.)
Shares under option, December 1, 2001	143,200	12.
Options granted	--	
Options exercised	(133,000)	12.
Options canceled	(10,200)	12.
Shares under option, November 30, 2002	--	
Shares under option, November 29, 2003	--	
Options exercisable at:		
December 01, 2001	47,280	12.
November 30, 2002	--	
November 29, 2003	--	

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. BENEFIT PLANS PROFIT SHARING PLANS

A qualified plan, which covers the majority of salaried employees, provides for discretionary contributions up to a maximum of 15% of eligible salaries. The distribution of the contribution to the Plan's participants is based upon their annual base compensation. Contributions for fiscal 2003, 2002 and 2001 were \$118,000, \$144,000 and \$181,000, respectively.

The Company also has a nonqualified, defined contribution retirement plan for key employees who are ineligible for the salaried employees' qualified profit sharing plan. Contributions for fiscal 2003, 2002 and 2001 were \$41,000, \$41,000 and \$52,000, respectively. Benefits payable under this plan amounting to \$1,925,000 and \$1,898,000 at November 29, 2003 and November 30, 2002, respectively, are included in other noncurrent liabilities. These liabilities are fully funded by plan assets of equal amounts, which are included in other assets.

PENSION PLAN

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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.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets and a statement of the funded status of the Plan for fiscal 2003 and 2002:

	2003
	-----
RECONCILIATION OF THE BENEFIT OBLIGATION	
Obligation at beginning of year	\$3,312,000
Service cost	163,000
Interest cost	218,000
Amendments	-
Curtailement	-
Actuarial loss	355,000
Benefit payments	(785,000)
	-----
Obligation at end of year	\$3,263,000
	=====
	2003
	-----
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS	
Fair value of plan assets at beginning of year	\$2,477,000
Actual return on plan assets (net of expenses)	137,000
Benefit payments	(785,000)
	-----
Fair value of plan assets at end of year	\$1,829,000
	=====
	2003
	-----
FUNDED STATUS	
Funded status	\$ (1,434,000)
Unrecognized prior service cost	256,000
Unrecognized actuarial loss	464,000
	-----
Net amount recognized	\$ (714,000)
	=====

FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table provides the amounts recognized in the consolidated balance sheets as of November 29, 2003 and November 30, 2002:

	2003
	-----
Accrued benefit liability (included in other noncurrent liabilities)	\$ (1,434,000)
Intangible pension asset (included in other assets)	256,000
Accumulated other comprehensive loss (Net of tax effect below)	297,000
Deferred tax asset	167,000
	-----
Net amount recognized	\$ (714,000)
	=====

The following table provides the components of the net periodic (benefit) cost for the Plan for fiscal 2003 and 2002:

	2003
	-----
Service cost	\$ 163,000
Interest cost on projected benefit obligation	218,000
Expected return on plan assets	(191,000)
Amortization of prior service cost	37,000
Amortization of net gain	--
Recognized loss due to curtailment and settlement	109,000
	-----
Net periodic pension cost	\$ 336,000
	=====

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligations and the market-related value of assets are amortized over the average remaining service period of active participants.

The weighted average assumptions used in the measurement of the Company's benefit obligations for fiscal 2003 and 2002 are shown in the following table:



Discount rate	6.25
Expected return on plan assets	8.00

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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EMPLOYEE STOCK OWNERSHIP PLAN

The Company had an Employee Stock Ownership Plan ("ESOP") which covered all full-time employees who have completed one year of service. In 1991, the ESOP purchased 340,000 shares of common stock from the Chairman of the Board of Directors and President of the Company for \$34.875 per share, which represented 5.5% of the Company's then outstanding common stock. The ESOP was funded by the Company, pursuant to a loan pledge agreement for \$11,857,000. The loan was payable by the ESOP to the Company from contributions to be made in fifteen equal annual principal installments plus interest at the prime rate. Employee rights to the common shares vest over a seven-year period and are payable at retirement, death, disability or termination of employment.

The Company accounted for the ESOP shares in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 76-3. ESOP contributions were recorded for financial reporting purposes as the ESOP shares became allocable to the plan participants. All ESOP shares were considered outstanding in the determination of earnings (loss) per share.

Pursuant to resolutions adopted by the Company's Board of Directors, upon approval of the Plan by the stockholders on May 30, 2002 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. The Company recorded the related treasury stock at the fair market value on the date of the termination, which resulted in a \$2.4 million charge to additional paid-in-capital in fiscal 2002.

For fiscal 2001, the portion of the common stock

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dividends declared relating to ESOP shares totaled \$104,000. Of this amount, \$65,000 related to allocated shares and \$39,000 related to unallocated shares. The dividends related to the unallocated shares was applied towards the \$790,000 annual principal installments referred to above. There were no common stock dividends declared relating to ESOP shares for fiscal 2002.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The net charge to earnings for fiscal 2001 were as follows (in thousands):

	2001
Contribution to ESOP	\$1,048
Less: Interest income on loan to ESOP	296
Net charge to earnings	\$ 752

=====

The contribution to the ESOP was allocated between costs of goods sold and operating expenses. The interest income was included in interest and dividend income.

There was no charge to earnings for fiscal 2003 or 2002.

#### 8. INCOME TAXES

Provisions (benefits) for Federal, state and local income taxes for fiscal 2003, 2002 and 2001 consisted of the following components (in thousands):

	2003	2002	2001
Current:			
Federal	\$ 313	\$ 479	\$ (469)
State and local	150	100	159
Deferred:			
Federal and state	(638)	461	(6,555)
Total			
	\$ (175)	\$1,040	\$ (6,865)

=====

FAB INDUSTRIES, INC.  
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The net deferred tax liability at November 29, 2003 and November 30, 2002 consisted of the following (in thousands):

	2003	2002
-----		
Long-term portion:		
Deferred tax liability (asset) for:		
Depreciation	\$ 1,577	\$ 6
Employee Benefit Plans	(1,360)	(1,1
Pension obligation	(167)	(
Other	2	)
-----		
Net long-term liability (asset)	52	(5
-----		
Current portion:		
Deferred tax liability (asset) for:		
Allowance for doubtful accounts	(337)	(2
Net unrealized gain		
on investment securities	74	2
Other	(243)	(
-----		
Net current liability (asset)	(506)	)
-----		
Net deferred tax asset	\$ (454)	\$ (5
=====		

FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The provision (benefit) for income taxes differed from the amount computed by applying the statutory federal income tax rate of 34.0% for fiscal 2003, 2002 and 2001 to income (loss) before income taxes due to the following:

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	2003	2002	2001
----- (Tax effect in thousands)			
Federal tax expense			
(benefit) at statutory rate	\$ (525)	\$ 513	\$(5,266)
State and local income taxes, net of Federal benefit	99	66	105
Tax-free interest income and dividends received deduction	(59)	(119)	(147)
Change in estimates for tax contingency and other	310	580	(1,557)
-----			
Income tax expense (benefit)	\$(175)	\$1,040	\$(6,865)
=====			

In the fourth quarter of fiscal 2001, the Company reversed approximately \$1.5 million of certain tax reserves recorded in prior years, due to changes in estimates for tax contingency items.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. COMMITMENTS AND EMPLOYMENT AGREEMENT  
CONTINGENCIES

The Company and Mr. Bitensky amended the employment agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board. Accordingly, the Company recorded a charge of \$856,000, which was included in other expense for fiscal 2003

Such amendment to the employment agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death shares of common stock from his estate equal to the lessor of \$7 million or 10% of the book value of the Company at the end of the year immediately following his death, plus \$3 million in proceeds from insurance on his

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life for which the Company was beneficiary. In consideration of Mr. Bitensky's relinquishing the right to have the Company repurchase approximately \$10 million of shares of common stock from his estate, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company. The Company transferred these policies having an aggregate cash surrender value at November 29, 2003 of approximately \$803,000. Accordingly, the Company recorded a charge of \$803,000, which was included in other expenses and reclassified the \$7 million in redeemable common stock to retained earnings in fiscal 2003.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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LEASE

The Company leases its New York City offices and showrooms until 2005, at average minimum annual rentals of \$136,000 plus escalation and other costs.

Rental expense for operating leases in fiscal 2003, 2002 and 2001 aggregated \$297,000, \$495,000 and \$679,000, respectively.

Future minimum annual payments over the remaining noncancellable term of the Company's New York City operating lease are as follows:

FISCAL YEAR ENDING (IN THOUSANDS)

2004	\$135
2005	91
	-----
	\$226

=====

LITIGATION

On November 10, 2003, a class action suit was filed against the Company. 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 defendants 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

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enjoin defendants from effectuating the planned management buyout. The Company served an answer to the complaint on December 11, 2003.

On each of November 21 and November 26, 2003 class action lawsuits were initiated against the Company asserting 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 the management-led buyout to acquire the Company.

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, or results of operations.

#### OTHER

The Company had a letter of credit with its insurance provider for \$1.0 million as of November 29, 2003, subsequently reduced to \$400,000.

10. STATEMENT OF CASH FLOWS Cash outlays for corporate income taxes and interest for fiscal 2003, 2002 and 2001 were as follows (in thousands):

	CORPORATE INCOME TAXES	INTEREST
2003	\$ 538	\$ --
2002	156	13
2001	438	42

=====

#### NONCASH INVESTING AND FINANCING ACTIVITIES

In fiscal 2003, 2002 and 2001, net unrealized holding gains (losses) of \$(372,000), \$0 and \$1,051,000, respectively, less related income taxes of \$(149,000), \$0, and \$420,000, on investment securities available-for-sale, were recorded as increases (decreases) in stockholders' equity.

In June 2003, the Company repurchased 22,984 shares

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of its common stock at \$9.48 per share from employees and directors in exchange for its notes receivable from those individuals.

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FAB INDUSTRIES, INC.  
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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. INTEREST AND DIVIDEND INCOME Interest and dividend income for the past three fiscal years were as follows (in thousands):

	INTEREST INCOME	DIVIDEND INCOME	TOTAL
2003	\$1,089	\$190	\$1,279
2002	\$2,164	\$249	\$2,413
2001	4,123	166	4,289

12. ASSET IMPAIRMENT AND RESTRUCTURING CHARGES

In the third quarter of fiscal 2003, the Company reviewed assets held for sale and determined an additional charge of \$685,000 was required.

In the second quarter of fiscal 2001, the Company implemented a restructuring plan to consolidate several manufacturing facilities. As a result the Company's fiscal year ended December 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 buildings, 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.

During the fiscal year ended December 1, 2001, the Company had expended approximately \$1,300,000 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.

As a result, in accordance with FAS 121, the Company

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reviewed long-lived assets to be held and used for impairment and, in the fourth quarter of 2001, recorded an impairment charge of approximately \$7,272,000 relating to fixed assets.

The Company continues to utilize the majority of its remaining property, plant, and equipment, however, there can be no assurance that the Company will sell its assets or if it does sell its assets, that it will be able to recover the full value of its assets, particularly its property, plant and equipment

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. EARNINGS (LOSS)  
PER SHARE

Basic and diluted earnings (loss) per share for the fiscal years ended November 29, 2003, November 30, 2002 and December 1, 2001 are calculated as follows:

	NET INCOME (LOSS)	WEIGHTED AVERAGE SHARES
-----		
Fiscal year ended November 29, 2003:		
Basic loss per share	\$(1,370,000)	5,226,902
Effect of assumed exercise of employee stock options	--	--
-----		
Diluted loss per share	\$(1,301,000)	5,226,902
=====		
Fiscal year ended November 30, 2002:		
Basic earnings per share	\$1,970,000	5,222,812
Effect of assumed exercise of employee stock options	--	--
-----		
Diluted earnings per share	\$1,970,000	5,222,812
=====		
Fiscal year ended December 1, 2001:		
Basic loss per share	\$(8,623,000)	5,258,353
Effect of assumed exercise of employee stock options	--	--
-----		
Diluted loss per share	\$(8,623,000)	5,258,353
=====		



FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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During fiscal 2003, there were no options outstanding. During fiscal 2002, all outstanding options were either exercised or canceled. Options to purchase 143,200 shares of common stock were outstanding during fiscal 2001, but were not included in the computation of diluted earnings per share, as their effect would be anti-dilutive.

FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. SEGMENT INFORMATION

The Company adopted SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information" in fiscal 1999. SFAS No. 131 requires companies to report information on segments using the way management organizes segments within the company for making operating decisions and assessing financial performance.

The Company's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The Company's CEO evaluates both consolidated and disaggregated financial information in deciding how to allocate resources and assess performance. The Company has identified three reportable segments based upon the primary markets it serves: Apparel Fabrics, Home Fashions, Industrial Fabrics and Accessories and Other.

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

**Home Fashions and Accessories:** While sales primarily to manufacturers of home furnishings, we also use our own textile fabrics internally to produce flannel and satin sheets, blanket products, comforters, and other bedding products which we sell to specialty stores, catalogue and mail order companies and airlines.

**Other:** The Company produces a line of ultrasonically, hot melt adhesive, flame and adhesive bonded products for environmental, health care, industrial and

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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 accounting policy of the reportable segments are the same as those described in Summary of Accounting Policies (Business F-9). 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.

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FAB INDUSTRIES, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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For the 52 weeks ended December 1, 2001, charges for the asset impairment and restructuring charges applies mainly to the apparel segment with a small portion to the other segment. The 52 weeks ended November 30, 2002 included a litigation settlement in the amount of \$750,000, which was included in the Home Fashions and Accessories segment (see Note 16). The 52 weeks ended November 29, 2003 included other expenses of \$1,659,000, relating to the amendment to Mr. Bitensky's employment agreement (see Note 9). This amount was allocated between segments with a majority included in the apparel segment. In addition, the asset impairment charge in fiscal 2003 applied to the apparel segment (see Note 12).

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FAB INDUSTRIES, INC.  
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During all years presented, no single customer or group of affiliated customers accounted for more than 10% of the year's net sales.

The following are our segment revenues and income (loss) by reportable segments for the fiscal years 2003, 2002, and 2001.

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2003	APPAREL	HOME FASHIONS, AND ACCESSORIES	OTHER	TOTAL
External sales	\$39,143	\$ 4,227	\$7,803	\$51,173
Intersegment sales	3,579	56	306	3,941
Operating income/(loss)	(4,647)	(187)	744	(4,090)
Depreciation expense	1,475	64	364	1,903
Segment assets	11,682	929	2,370	14,981
Capital expenditures	27	38	202	267

2002	APPAREL	HOME FASHIONS, AND ACCESSORIES	OTHER	TOTAL
External sales	\$51,269	\$ 4,673	\$7,023	\$62,965
Intersegment sales	3,860	22	372	4,254
Operating income/(loss)	(679)	(1,085)	195	(1,569)
Depreciation expense	1,600	51	327	1,978
Segment assets	16,629	1,005	2,543	20,177
Capital expenditures	--	--	225	225

2001	APPAREL	HOME FASHIONS, AND ACCESSORIES	OTHER	TOTAL
External sales	\$60,884	\$ 10,382	\$8,770	\$80,036
Intersegment sales	9,781	44	326	10,151
Operating income/(loss)	(22,346)	674	(1,088)	(22,760)
Depreciation expense	3,919	54	477	4,450
Segment assets	21,844	1,454	2,867	26,165
Capital expenditures	374	--	302	676

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REVENUES	2003	2002	2001
Total external sales for segments	\$ 51,173	\$ 62,965	\$ 80,036
Intersegment sales for segments	3,941	4,254	10,151
Elimination of intersegment sales	(3,941)	(4,254)	(10,151)
Total consolidated sales	\$ 51,173	\$ 62,965	\$ 80,036
PROFIT OR LOSS			
Total operating loss for segments	\$ (4,090)	\$ (1,569)	\$ (22,760)
Total other income	2,545	4,579	7,272
Income (loss) before taxes on income	\$ (1,545)	\$ 3,010	\$ (15,488)

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ASSETS

Total segments assets	\$ 14,981	\$ 20,177	\$ 26,165
Assets not allocated to segments	43,094	61,052	105,363
-----			
Total consolidated assets	\$ 58,075	\$ 81,229	\$ 131,528
=====			

OTHER SIGNIFICANT ITEMS

Depreciation expense	\$ 1,903	\$ 1,978	\$ 4,450
Not allocated to segments	24	165	159
-----			
Consolidated total	\$ 1,927	\$ 2,143	\$ 4,609
=====			

Capital expenditures	\$ 267	\$ 225	\$ 676
Not allocated to segments	--	--	27
-----			
Consolidated total	\$ 267	\$ 225	\$ 703
=====			

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. QUARTERLY FINANCIAL DATA (UNAUDITED) Quarterly earnings were as follows (in thousands, except for earnings per share):

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
-----			
Fiscal 2003:			
Net sales	\$11,587	\$13,646	\$13,357
Gross profit	741	1,353	1,002
Net income (loss)	(270)	320	(1,252)
Earnings (loss) per share:			
Basic	\$ (0.05)	\$ 0.06	\$ (0.24)
Diluted	\$ (0.05)	\$ 0.06	\$ (0.24)
=====			
Fiscal 2002:			
Net sales	\$14,250	\$17,362	\$17,920
Gross profit	1,107	2,424	2,362
Net income (loss)	(677)	1,626	1,010
Earnings (loss)			

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per share:				
Basic	\$	(0.13)	\$	0.31
Diluted	\$	(0.13)	\$	0.31
				\$
				0.19

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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16. OTHER EXPENSE      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 relates 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 wrong doing 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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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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17. SUBSEQUENT EVENT      On Feb 18, 2004 the Company's Board of Directors declared a liquidating distribution of \$3 per share to be payable on March 10, 2004 with a record date of February 28, 2004, which is expected to total approximately \$15.6 million.

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FAB INDUSTRIES, INC. AND SUBSIDIARIES  
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CONSOLIDATED FINANCIAL STATEMENTS SCHEDULES  
FORM 10-K

FISCAL YEARS ENDED NOVEMBER 29, 2003, NOVEMBER 30, 2002,  
AND DECEMBER 1, 2001

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FAB INDUSTRIES, INC. AND SUBSIDIARIES

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SCHEDULE:	PAGE
II. Valuation and Qualifying Accounts	S-3

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FAB INDUSTRIES, INC.  
AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS  
(IN THOUSANDS)

=====

COL. A -----	COL. B -----	COL. C ----- ADDITIONS		COL. D -----	B
DESCRIPTION	BALANCE AT BEGINNING OF YEAR	(1) CHARGED TO COSTS AND EXPENSES	(2) CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	EN
-----					
Fiscal year ended November 29, 2003: Allowance for doubtful Accounts	\$ 1,000	\$400(i)	\$ --	\$ (500)(ii)	
Fiscal year ended					

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November 30, 2002:					
Allowance for doubtful					
Accounts	\$	600	\$400 (i)	\$	--
				\$	--
Fiscal year ended					
December 1, 2001:					
Allowance for doubtful					
Accounts	\$	300	\$400 (i)	\$	--
				\$	(100) (ii)

(i) Current year's provision.

(ii) Accounts receivable written-off, net of recoveries.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Fab has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

FAB INDUSTRIES, INC.

By: /s/ Samson Bitensky

-----  
 Samson Bitensky  
 Chairman of the Board and  
 Chief Executive Officer

Date: February 27, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated.

SIGNATURE	DATE	CAPACITY IN WHICH SIGNED
-----	----	-----
/s/ Samson Bitensky ----- Samson Bitensky	February 27, 2004	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
/s/ David A. Miller ----- David A. Miller	February 27, 2004	Vice President - Finance, Treasurer, and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Martin B. Bernstein ----- Martin B. Bernstein	February 27, 2004	Director
/s/ Lawrence H. Bober -----	February 27, 2004	Director

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Lawrence H. Bober

/s/ Frank S. Greenberg                      February 27, 2004                      Director  
-----  
Frank S. Greenberg

/s/ Susan B. Lerner                              February 27, 2004                      Director  
-----  
Susan B. Lerner

/s/ Richard Marlin                              February 27, 2004                      Director  
-----  
Richard Marlin

/s/ Steven E. Myers                              February 27, 2004                      Director, President and Chief Operating  
-----  
Steven E. Myers                              Officer