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FAB INDUSTRIES TRUST
Form 10-Q
August 12, 2005

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FORM 10-Q QUARTERLY REPORT

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended MAY 28, 2005

OR

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

For the transition period from _____ to _____

Commission file number 1-5901

FAB INDUSTRIES TRUST

(Exact name of registrant as specified in its charter)

DELAWARE

13-2581181

(State or other jurisdiction of
incorporation or organization)

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

200 MADISON AVENUE, NEW YORK, N.Y.

10016

(Address of principal executive office)

(Zip Code)

(212) 592-2700

(Registrant's telephone number, including area code)

FAB INDUSTRIES, INC.

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

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

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

As of 8/10/2005, there were 5,215,031 Units of the registrant outstanding.

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EXPLANATORY NOTE.

As more fully described in this Quarterly Report of Form 10-Q, as of the close of business on May 27, 2005, Fab Industries, Inc. (referred to hereinafter as the "Company") transferred all of its assets and liabilities into a liquidating trust called the Fab Industries Trust (referred to hereinafter as the "Trust") and cancelled all of its issued and outstanding stock. This Quarterly Report on Form 10-Q is being filed by the Trust as successor to the Company. All references to the Company from and after May 27, 2005 shall be deemed to be references to the Trust.

FAB INDUSTRIES TRUST AND SUBSIDIARIES

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

STATEMENT OF NET ASSETS IN LIQUIDATION

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ASSETS:	(UNAUDITED) MAY 28, 2005	NOVEMBER 27, 2004
Cash and cash equivalents	\$ 795,000	\$ 639,000
Investment securities available-for-sale	18,813,000	19,255,000
Accounts receivable	6,690,000	7,057,000
Inventories	1,440,000	1,517,000
Other assets	3,030,000	3,034,000
Property, plant and equipment	6,142,000	6,082,000
<hr/>		
TOTAL ASSETS	36,910,000	37,584,000
<hr/>		
LIABILITIES:		
Accounts payable	3,860,000	3,570,000
Corporate income and other taxes	480,000	819,000
Accrued payroll and related expenses	802,000	983,000
Other liabilities	5,711,000	3,636,000
Estimated cost of liquidation	9,556,000	11,589,000
<hr/>		
TOTAL LIABILITIES	20,409,000	20,597,000
<hr/>		
Net assets in liquidation	\$16,501,000	\$16,987,000
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See notes to condensed consolidated financial statements

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

PERIOD FROM NOVEMBER 27, 2004 THRU MAY 28, 2005 (UNAUDITED)

Net assets in liquidation at November 27, 2004	\$16,987,000
Reductions in net assets in liquidation:	
Interest and dividend income	268,000
Net gain on investment securities	183,000
Net other operating loss	(937,000)

	(486,000)

Net assets in liquidation at May 28, 2005	\$16,501,000
	=====

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDED
	----- May 29, 2004 ----- (unaudited)
Net sales	\$14,596,000
Cost of goods sold	12,285,000

Gross profit	2,311,000
Operating Expenses:	
Selling, general and administrative expenses	1,993,000
Gain on sale of fixed assets	(322,000)

Total operating expenses	1,671,000

Operating income	640,000

Other income:	
Interest and dividend income	108,000
Net gain on investment securities	434,000

Total other income	542,000

Income before taxes	1,182,000
Income tax expense	415,000

Net income	\$ 767,000
	=====
Income per share: (Note 4)	
Basic	\$ 0.15
Diluted	\$ 0.15
Cash dividends declared per share	\$ 3.00

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 26 WKS ENDED
	----- May 29, 2004 ----- (unaudited)
Net sales	\$24,737,000

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Cost of goods sold	21,997,000

Gross profit	2,740,000
Operating Expenses:	
Selling, general and administrative expenses	3,669,000
Gain on sale of fixed assets	(1,007,000)
Other expense (Note 8)	250,000

Total operating expenses	2,912,000

Operating loss	(172,000)

Other income:	
Interest and dividend income	330,000
Net gain on investment securities	602,000

Total other income	932,000

Income before taxes	760,000

Income tax expense	285,000

Net income	\$ 475,000
	=====
Income per share: (Note 4)	
Basic	\$ 0.09
Diluted	\$ 0.09
Cash dividends declared per share	\$ 3.00

See notes to condensed consolidated financial statements.

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE 26 WKS ENDED

MAY 29, 2004

(unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$475,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for doubtful accounts	350,000
Depreciation and amortization	815,000
Deferred income taxes	(52,000)
Net gain on investment securities	(602,000)
Gain on disposition of fixed assets	(1,007,000)
Decrease (increase) in:	

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Accounts receivable	(1,455,000)
Inventories	212,000
Other current assets	287,000
Other assets	24,000
(Decrease) increase in:	
Accounts payable	1,198,000
Accruals and other liabilities	899,000

Net cash provided by operating activities	1,144,000

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(40,000)
Proceeds from dispositions of property and equipment	1,738,000
Proceeds from sales of investment securities	11,253,000

Net cash provided by investing activities	12,951,000

CASH FLOWS FROM FINANCING ACTIVITIES:	
Dividends	(15,645,000)

Decrease in cash and cash equivalents	(1,550,000)
Cash and cash equivalents, beginning of period	3,397,000

Cash and cash equivalents, end of period	\$1,847,000

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of presentation: (unaudited)

These financial statements should be read in conjunction with the financial statements and notes thereto included in Fab Industries, Inc.'s Annual Report on Form 10-K for the year ended November 27, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Examples of such estimates include, but are not limited to, the accounting for contingencies and estimated costs of liquidation, which represents the estimate of the costs to be incurred during liquidation. Actual results could differ from those estimates.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002. Under the Plan, the Company was required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders on May 30, 2005, if the Company's business has not been sold by such date.

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The Company announced on May 27, 2005 that it entered into a definitive agreement for the "as is, where is" sale, on a going concern basis of all its assets and the assumption of all its liabilities to SSJJJ Manufacturing, LLC, an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ") at a cash price of \$3.15 per share, for an aggregate consideration of \$16,427,347. The purchase price will be paid at the closing of the transaction by having the Company retain an amount of cash equal to \$16,427,347, with any cash shortfall from such amount to be paid by SSJJJ.

The closing on the asset sale is subject to the Trust, as successor to the Company, reaching final settlement of its previously disclosed shareholder litigation. The Company and the plaintiffs have entered into a Stipulation of Settlement pursuant to which the shareholder litigation will be dismissed if the court approves such settlement. A settlement hearing has been scheduled for September 21, 2005. At the settlement hearing, the court will, among other things, determine whether or not to approve the settlement of the shareholder litigation.

Since the closing of the sale of the Company's assets and liabilities to SSJJJ was subject to the final settlement of the shareholder litigation and could not close on or prior May 30, 2005, all of the Company's assets and liabilities were transferred to a liquidating trust (the "Fab Industries Trust") on May 27, 2005. In addition, in accordance with the terms of the Plan, the Company's stock transfer books closed effective as of the close of business on May 27, 2005 and its common stock was delisted from trading on the AMEX. Consequently, Friday May 27, 2005, was the last day the Company's common stock traded on the AMEX. The Company also filed its certificate of dissolution, effective as of the close of business on Friday, May 27, 2005, at which time all of the Company assets, including the definitive agreement for the sale of the business to SSJJJ, and all of the Company's liabilities, were transferred to the Fab Industries Trust. As of the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

close of business on May 27, 2005, certificates representing shares of Company common stock are no longer assignable or transferable, except by will, intestate succession or by operation of law and the proportionate interests of all the Company's stockholders in the trust was fixed on the basis of their respective stock holdings at the close of business on Friday, May 27, 2005. After such date, any distributions made by the Trust will be made solely to the stockholders of record of the Company at the close of business on May 27, 2005, except as may be necessary to reflect subsequent transfers by will, intestate succession or by operation of law. The interests in the trust are not transferable, except by will, intestate succession or by operation of law. The trustee of the trust is Mr. Samson Bitensky, the Company's Chairman and Chief Executive Officer and the trust has a three-year duration.

On June 3, 2005, the Pension Benefit Guaranty Corporation ("PBGC") commenced a proceeding to terminate the Fab Industries, Inc. Hourly Employees' Retirement Plan (the "Retirement Plan") as of May 30, 2005, pursuant to the PBGC-initiated termination procedures set out in Section 4042 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trust expects that it will soon either (i) agree to termination of the Retirement Plan on the basis proposed by PBGC, or (ii) initiate a so-called "standard" termination under Section 4041 of ERISA. In either such case, the Trust expects that it will

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pay the underfunding shortfall either to the Retirement Plan (in the case of a standard termination) or to the PBGC on behalf of the Retirement Plan (in connection with a PBGC-initiated termination). Based on estimates recently received from the Trust's actuaries, the termination underfunding shortfall at July 31, 2005 is estimated to be approximately \$2 million.

The Trust's financial statements are presented on a liquidation basis as the Trust's assets and liabilities were transferred to the liquidating trust. The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Trust may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation. The amounts realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts, which approximates the \$16,501,000 net orderly liquidation value. Included in the liabilities, the Trust accrued \$9,556,000 in costs of liquidation representing the estimate of the costs to be incurred during liquidation; however, actual costs could vary from those estimates.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	(UNAUDITED) ----- MAY 28, 2005 -----	NOVEMBER 27, 2004 -----
Accounts payable and accrued liabilities	\$10,853,000	\$9,008,000
ESTIMATED COSTS OF LIQUIDATION:		
Compensation and benefits	6,191,000	6,191,000
Defined benefit pension plan (1)	--	2,033,000
Legal audit and tax services	1,250,000	1,250,000
Insurance	450,000	450,000
Other costs, including leases, property taxes, utilities, maintenance, repairs, stationery supplies, postage, and security	1,665,000	1,665,000
	----- 9,556,000 -----	----- 11,589,000 -----
Total liabilities	\$20,409,000 =====	\$20,597,000 =====

(1) \$2,007,000 of defined benefit plan transferred to accounts payable and accrued liabilities.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company's stock option plans were terminated subsequent to the

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fiscal year ended November 30, 2002 and there has been no stock compensation expense under the disclosure-only provision of SFAS No.123 subsequent thereto.

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

	(UNAUDITED) MAY 28, 2005 -----	NOVEMBER 27, 2004 -----
Cash and cash equivalents	\$ 795 =====	\$ 639 =====

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. Investment Securities:

At May 28, 2005 and November 27, 2004, investment securities available-for-sale consisted of the following (in thousands):

MAY 28, 2005 (UNAUDITED) -----	COST -----	FAIR VALUE -----
U.S. Treasury obligations	18,466	18,508
Corporate bonds	250	0
Money market	305	305
	-----	-----
	\$ 19,021 =====	\$ 18,813 =====

NOVEMBER 28, 2004 -----	COST -----	FAIR VALUE -----
Equities	\$ 6,516	\$ 6,651
U.S. Treasury obligations	11,132	11,112
Corporate bonds	1,591	1,339
Money Market	153	153
	-----	-----
	\$ 19,392 =====	\$ 19,255 =====

The Trust has agreements with various brokerage firms to carry its account as a customer. The brokers have custody of the Trust'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 Trust.

The Trust is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody. It is the policy of the Trust to limit the amount of credit exposure to any one financial institution. The Trust has received confirmation indicating that, with respect to investment securities, each custodian maintains appropriate insurance coverage.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. Earnings Per Share:

Basic and diluted earnings per share for the 13 weeks and 26 weeks ended May 29, 2004 are calculated as follows:

	NET INCOME	AVERAGE SHARES	WEIGHTED PER-SHARE AMOUNT
	-----	-----	-----
For the 13 weeks ended May 29, 2004:	\$767,000	5,215,031	\$0.15
	-----	-----	-----
For the 26 weeks ended May 29, 2004:	\$475,000	5,215,031	\$0.09
	-----	-----	-----

5. Litigation:

On November 10, 2003, a class action suit was filed against the Company in Delaware Chancery Court. The complaint asserts claims against the Company and certain of its officers and directors based on the management buy-out proposal at a price allegedly lower than the cash value and book value of the Company's shares and which was an allegedly interested transaction, the amendment to Mr. Bitensky's employment contract, the Company's failure to seek stockholder approval for the management buyout and the Company's failure to file a certificate of dissolution with the Delaware Secretary of State. The complaint alleges such actions constitute violations of defendant's fiduciary duties as well as the provisions of the Delaware General Corporation Law.

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

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

The Company believes that each of the claims described above is without merit. Further, certain of the claims described above have been rendered moot by the withdrawal of preliminary offer by management-led buyout to acquire the Company.

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)

5. Litigation continued:

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

Following that decision, plaintiff moved for summary judgment on its claims relating to the Company's alleged failure to timely file a certificate of dissolution and seeking a declaration that the plan of dissolution (the "Plan") is invalid for failure to require a shareholder vote before the sale of all of the Company's assets. The motions were fully briefed and argued before the Court on April 12, 2005. On May 2, 2005, the court issued its opinion holding that the Plan is valid in its entirety and that the Company has not violated Delaware law by not yet filing its certificate of dissolution.

The court stated that the Company may negotiate and agree to a sale before the certificate of dissolution is filed, but that the sale cannot be consummated until the certificate of dissolution has become effective. The court concluded that once the dissolution becomes effective, Fab may consummate a sale of its assets without a shareholder vote.

The closing on the asset sale is subject to the Trust, as successor to the Company, reaching final settlement of its previously disclosed shareholder litigation. The Company and the plaintiffs have entered into a Stipulation of Settlement pursuant to which the shareholder litigation will be dismissed if the court approves such settlement. A settlement hearing has been scheduled for September 21, 2005. At the settlement hearing, the court will, among other things, determine whether or not to approve the settlement of the shareholder litigation.

On June 3, 2005, the Pension Benefit Guaranty Corporation ("PBGC") commenced a court proceeding to terminate the Fab Industries, Inc. Hourly Employees' Retirement Plan (the "Retirement Plan") as of May 30, 2005, pursuant to the PBGC-initiated termination procedures set out in Section 4042 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trust expects that it will soon either (i) agree to termination of the Retirement Plan on the basis proposed by PBGC, or (ii) initiate a so-called "standard" termination under Section 4041 of ERISA. In either such case, the Trust expects that it will pay the underfunding shortfall either to the Retirement Plan (in the case of a standard termination) or to the PBGC on behalf of the Retirement Plan (in connection with a PBGC-initiated termination). Based on estimates recently received from the Trust's actuaries, the termination underfunding shortfall at July 31, 2005 is estimated to be approximately \$2 million.

A number of claims and lawsuits are pending against the Trust. It is impossible at this time for the Trust to predict with any certainty the outcome of such litigation. However, management is of the opinion based upon information presently available, that it is unlikely that any liability would be material in relation to the Trust's consolidated financial position.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. 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 Trust's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The Trust's CEO evaluates both consolidated and disaggregated financial information in deciding how to allocate resources and assess performance.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. Segment Information (continued):

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

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

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

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

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

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

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

The Trust also sells its fabric and laces to "Over-the-Counter" retail

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customers through the Company's retail manufacturing operations, which are located at the Trust's Salisbury Manufacturing plant.

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

The accounting policy of the reportable segments are the same as those described in Summary of Accounting Policies. The Trust 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. Segment Information (continued):

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

The 26 weeks and 13 weeks ended May 29, 2004 includes gain on the sale of fixed assets of \$1,007,000 and \$322,000. Of this, \$441,000 in the 26 weeks ended May 29, 2004 belongs to the Other Segment and the balance applied to the Apparel Segment. In addition, for the 26 weeks ended May 29, 2004 the Apparel Segment includes \$250,000 reserve for environmental costs.

(in thousands)

26 WEEKS ENDED 05/28/05 ----- (UNAUDITED)	APPAREL -----	HOME FASHIONS AND ACCESSORIES -----	OTHER -----	TO ---
Segment assets (1)	\$6,145	\$384	\$1,053	\$7,
		(in thousands)		
26 WEEKS ENDED 05/29/04 ----- (UNAUDITED)	APPAREL -----	HOME FASHIONS AND ACCESSORIES -----	OTHER -----	TO ---
External sales	\$17,724	\$2,595	\$4,418	\$24
Intersegment sales	1,657	25	96	1
Operating income/(loss)	(1,478)	186	1,120	13
Segment assets	11,060	941	1,572	13
PROFIT OR LOSS (UNAUDITED)	26 WEEKS ENDED 5/29/04 -----			
Total operating loss for segments		\$ (172)		
Total other income		932		

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Income before taxes on income \$ 760
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13 WEEKS ENDED 05/29/04 ----- (UNAUDITED)	APPAREL -----	HOME FASHIONS AND ACCESSORIES -----	OTHER -----	TO ---
External sales	\$10,734	\$1,362	\$2,500	\$14
Intersegment sales	608	10	54	
Operating income/(loss)	(95)	263	472	

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NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)

PROFIT OR LOSS (UNAUDITED) -----	13 WEEKS ENDED 5/29/04 -----
Total operating income for segments	\$ 640
Total other income	542
Income before taxes on income	\$ 1,182 =====

- (1) As of May 28, 2005, accounts receivable, inventory and plant and equipment are valued at net orderly liquidation value. In addition, other assets were decreased to liquidation value.

7. Commitments and Contingencies

Employment Agreement:

On July 25, 2003, the Company and Mr. Bitensky amended the employment agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board. On June 22, 2005, Mr. Bitensky received a lump sum payment of \$1,157,474.

Such amendment to the Employment Agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately \$10,000,000 of shares of Common Stock from his estate. In consideration of Mr. Bitensky's relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company.

Other:

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

8. Other Expense:

The Company recorded an accrual of \$250,000 for environmental costs in the quarter ending February 28, 2004. The accrual represents the estimated costs associated with a lagoon cleaning process as per North Carolina State

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requirements to eliminate odors in a lagoon, which is located next to one of our plants. The lagoon process has been completed and all associated costs associated with this process have been paid.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. Benefit Plans:

During the first quarter of fiscal 2004, the Company adopted the interim disclosure provisions of SFAS No. 132 (revised 2003), "Employers' Disclosure about Pensions and Other Postretirement Benefits, an Amendment of FASB Statements no. 87, 88 and 106 and a Revision of FASB Statement No. 132".

This statement revises employers' disclosures about pension plans and other post retirement benefit plans. The following table summarizes the components of net periodic benefit cost for the Trust.

(IN THOUSANDS):

	SIX MONTHS ENDED	
	----- May 28, 2005	May 29, 2004 -----
Service Cost	\$ 72	\$ 80
Interest cost	88	108
Expected return on assets	(70)	(72)
Net loss recognized	10	16
Amortization of prior service cost	18	18
	-----	-----
Net periodic benefit cost	\$ 118	\$ 150
	=====	=====

The Trust contributed \$320,000 during the period, December 1, 2004 through May 28, 2005. In addition, the Trust contributed \$95,000 on June 15, 2005.

Pension Obligation:

On June 3, 2005, the Pension Benefit Guaranty Corporation ("PBGC") commenced a proceeding to terminate the Retirement Plan as of May 30, 2005, pursuant to the PBGC-initiated termination procedures set out in Section 4042 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trust expects that it will soon either (i) agree to termination of the Retirement Plan on the basis proposed by PBGC, or (ii) initiate a so-called "standard" termination under Section 4041 of ERISA. In either such case, the Trust expects that it will pay the underfunding shortfall either to the Retirement Plan (in the case of a standard termination) or to the PBGC on behalf of the Retirement Plan (in connection with a PBGC-initiated termination). Based on estimates recently received from the Trust's actuaries, the termination underfunding shortfall at July 31, 2005 is estimated to be approximately \$2 million. This underfunding shortfall has been included in other liabilities.

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ITEM 2.

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Examples of such estimates include, but are not limited to, the accounting for contingencies and estimated costs of liquidation, which represents the estimate of the costs to be incurred during liquidation. Actual results could differ from those estimates.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002. Under the Plan, the Company was required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders on May 30, 2005, if the Company's business has not been sold by such date.

The Company announced on May 27, 2005 that it entered into a definitive agreement for the "as is, where is" sale, on a going concern basis of all its assets and the assumption of all its liabilities to SSJJJ Manufacturing, LLC, an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ") at a cash price of \$3.15 per share, for an aggregate consideration of \$16,427,347. The purchase price will be paid at the closing of the transaction by having the Company retain an amount of cash equal to \$16,427,347, with any cash shortfall from such amount to be paid by SSJJJ.

The closing on the asset sale is subject to the Trust, as successor to the Company, reaching final settlement of its previously disclosed shareholder litigation. The Company and the plaintiffs have entered into a Stipulation of Settlement pursuant to which the shareholder litigation will be dismissed if the court approves such settlement. A settlement hearing has been scheduled for September 21, 2005. At the settlement hearing, the court will, among other things, determine whether or not to approve the settlement of the shareholder litigation.

Since the closing of the sale of the Company's assets and liabilities to SSJJJ was subject to the final settlement of the shareholder litigation and could not close on or prior May 30, 2005, all of the Company's assets and liabilities were transferred to a liquidating trust, Fab Industries Trust, on May 27, 2005. In addition, in accordance with the terms of the Plan, the Company's stock transfer books closed effective as of the close of business on May 27, 2005 and its common stock was delisted from trading on the AMEX. Consequently, Friday May 27, 2005, was the last day the Company's common stock traded on the AMEX. The Company also filed its certificate of dissolution, effective as of the close of business on Friday, May 27, 2005, at which time all of the

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Company assets, including the definitive agreement for the sale of the business to SSJJJ, and all of the Company's liabilities, were transferred to the Fab Industries Trust. As of the close of business on May 27, 2005, certificates representing shares of Company common stock are no longer assignable or transferable, except by will, intestate succession or by operation of law and the proportionate interests of all the Company's stockholders in the trust was fixed on the basis of their respective stock holdings at the close of business on Friday, May 27, 2005. After such date, any distributions made by the Trust will be made solely to the stockholders of record of the Company at the close of business on May 27, 2005, except as may be necessary to reflect subsequent transfers by will, intestate succession or by operation of law. The interests in the trust are not transferable, except by will, intestate succession or by operation of law. The trustee of the trust is Mr. Samson Bitensky, the Company's Chairman and Chief Executive Officer and the trust has a three-year duration.

The Trust's financial statements are presented on a liquidation basis as the Trust's assets and liabilities were transferred to the liquidating trust. The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Trust may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation. The amounts realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts, which approximates the \$16,501,000 net orderly liquidation value. Included in the liabilities, the Trust accrued \$9,556,000 in costs of liquidation representing the estimate of the costs to be incurred during liquidation; however, actual costs could vary from those estimates.

At May 28, 2005, the following represent the Trust's estimated costs and expenses of liquidation:

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

	\$9,556,000
	=====

Liquidity and Capital Resources

The Trust's financial statements are presented on a liquidation basis as the Company's assets and liabilities were transferred to the liquidating trust.

As of May 28, 2005, our assets consisted of \$19,608,000 of cash and cash equivalents and investment securities available for sale, \$6,690,000 for accounts receivable, \$1,440,000 for inventories, \$3,030,000 for other assets and \$6,142,000 for property, plant and equipment. Our liabilities consist of \$10,853,000 for accounts payable, accruals and other liabilities and \$9,556,00 for estimated cost of liquidation. The net assets in liquidation are

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\$16,501,000. The amounts

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realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets.

COMMITMENTS:

On July 25, 2003, the Company and Mr. Bitensky amended the employment agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board. On June 22, 2005, Mr. Bitensky received a lump sum payment of \$1,157,474.

Such amendment to the Employment Agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately \$10,000,000 of shares of Common Stock from his estate. In consideration of Mr. Bitensky's relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company.

OFF BALANCE SHEET ARRANGEMENTS:

The Trust does not utilize off Balance Sheet arrangements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The critical accounting policies that affect the Trust's more complex judgments and estimates are described in the Company's Annual Report on Form 10-K for the fiscal year ended November 27, 2004.

FORWARD-LOOKING INFORMATION

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

performances or achievements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies, and expectations, are generally identifiable by the use of words "may", "should", "expect", "anticipate", "estimate" "believe" "intend" or "project" or the negative of them or other variations of them or comparable terminology.

Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to: our ability to find qualified buyers for our assets; overall economic and business conditions; our continuing ability to support the demand for our goods and services; competitive factors in the industries in which we compete; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; material contingencies provided for in a sale of our assets; our ability to retain key employees through any wind down period; and any litigation arising as a result of our plan to wind down our operations. These risks and uncertainties should be considered in evaluating any forward-looking statements contained in this quarterly report on Form 10-Q.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Trust is not exposed to any risk of fluctuations in the market value of equity securities.

ITEM 4. CONTROLS AND PROCEDURES

- (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES: Our principal executive officer and principal financial officer, have concluded, based on their evaluation, as of the end of the period covered by this report, that our disclosure controls and procedures (as defined in the Securities and Exchange Act of 1934 Rules 13a-15(e) and 15(d)-15(e)) are (1) effective to ensure that material information required to be disclosed by us in reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) designed to ensure the material information required to be disclosed by us in such reports is accumulated, organized and communicated to our management, including our principal executive officer and principal financial officer, as appropriated, to allow timely decisions regarding required disclosure.
- (b) INTERNAL CONTROL OVER FINANCIAL REPORTING: There were no significant changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities and Exchange Act of 1934, as amended) that occurred during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Trust'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

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the likelihood of future events. Because of these and other inherent limitations of

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control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

ITEM 6. EXHIBITS

- 31.1 Certification by Samson Bitensky pursuant to Section 302 of the Sarbanes-Oxley Act.
- 31.2 Certification by David A. Miller pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification by Samson Bitensky pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification by David A. Miller pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act.

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

Dated: August 11, 2005

FAB INDUSTRIES TRUST

By: /s/ Samson Bitensky

Samson Bitensky, Trustee
(principal executive officer)

By: /s/ David A. Miller

David A. Miller
(principal financial officer)

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