INSTEEL INDUSTRIES INC
Form 10-K
October 30, 2015
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 3, 2015

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 1-9929

INSTEEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

North Carolina **56-0674867**

(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

1373 Boggs Drive, Mount Airy, North Carolina 27030

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(336) 786-2141**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (No Par Value) (Preferred Share Purchase Rights are attached to and trade with the Common Stock)	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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

Preferred Share Purchase Rights (attached to and trade with the Common Stock)

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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 the Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of March 28, 2015 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $351,359,207 based upon the closing sale price as reported on the NASDAQ Global Select Market. As of October 29, 2015, there were 18,466,585 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's proxy statement to be delivered to shareholders in connection with the 2016 Annual Meeting of Shareholders are incorporated by reference as set forth in Part III hereof.

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Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, particularly in the "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this report. When used in this report, the words "believes," "anticipates," "expects," "estimates," "appears," "plans," "intends," "may," "should," "could" and similar expressio intended to identify forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, they are subject to a number of risks and uncertainties, and we can provide no assurances that such plans, intentions or expectations will be achieved. Many of these risks and uncertainties are discussed herein under the caption "Risk Factors" and are updated from time to time in our filings with the United States ("U.S.") Securities and Exchange Commission ("SEC"). You should carefully review these risk factors.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. All forward-looking statements speak only to the respective dates on which such statements are made and we do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as may be required by law.

It is not possible to anticipate and list all risks and uncertainties that may affect our future operations or financial performance; however, they would include, but are not limited to, the following:

general economic and competitive conditions in the markets in which we operate;

reduced spending for nonresidential and residential construction and the impact on demand for our products;

changes in the amount and duration of transportation funding provided by federal, state and local governments and the impact on spending for infrastructure construction and demand for our products;

the cyclical nature of the steel and building material industries;

credit market conditions and the relative availability of financing for us, our customers and the construction industry as a whole;

fluctuations in the cost and availability of our primary raw material, hot-rolled steel wire rod, from domestic and foreign suppliers;

competitive pricing pressures and our ability to raise selling prices in order to recover increases in wire rod costs;

changes in U.S. or foreign trade policy affecting imports or exports of steel wire rod or our products;

unanticipated changes in customer demand, order patterns and inventory levels;

the impact of weak demand and reduced capacity utilization levels on our unit manufacturing costs;

our ability to further develop the market for engineered structural mesh ("ESM") and expand our shipments of ESM;

legal, environmental, economic or regulatory developments that significantly impact our operating costs;

unanticipated plant outages, equipment failures or labor difficulties;

continued escalation in certain of our operating costs; and

the risks and uncertainties discussed herein under the caption "Risk Factors."

PART I

Item 1. Business

General

Insteel Industries, Inc. (“we,” “us,” “our,” “the Company” or “Insteel”) is the nation’s largest manufacturer of steel wire reinforcing products for concrete construction applications. We manufacture and market prestressed concrete strand (“PC strand”) and welded wire reinforcement (“WWR”), including ESM, concrete pipe reinforcement (“CPR”) and standard welded wire reinforcement (“SWWR”). Our products are sold primarily to manufacturers of concrete products that are used in nonresidential construction. For fiscal 2015, we estimate that approximately 85% of our sales were related to nonresidential construction and 15% were related to residential construction.

Insteel is the parent holding company for two wholly-owned subsidiaries, Insteel Wire Products Company (“IWP”), an operating subsidiary, and Intercontinental Metals Corporation, an inactive subsidiary. We were incorporated in 1958 in the State of North Carolina.

Our business strategy is focused on: (1) achieving leadership positions in our markets; (2) operating as the lowest cost producer; and (3) pursuing growth opportunities in our core businesses that further our penetration of the markets we currently serve or expand our geographic footprint. Headquartered in Mount Airy, North Carolina, we operate ten manufacturing facilities that are located in the U.S. in close proximity to our customers. Our growth initiatives are focused on organic opportunities as well as acquisitions in existing or related markets that leverage our infrastructure and core competencies in the manufacture and marketing of concrete reinforcing products.

On August 15, 2014, we, through our wholly-owned subsidiary, IWP, purchased substantially all of the assets associated with the PC strand business of American Spring Wire Corporation (“ASW”) for a final adjusted purchase price of $33.5 million (the “ASW Acquisition”). ASW manufactured PC strand at facilities located in Houston, Texas and Newnan, Georgia (see Note 4 to the consolidated financial statements). We acquired, among other assets, the accounts receivable and inventories related to ASW’s PC strand business, production equipment at its facility in Houston, Texas and its production equipment and facility in Newnan, Georgia. We also entered into an agreement with ASW pursuant to which we lease the Houston facility with an option to purchase it in the future. Subsequent to the acquisition, we elected to consolidate our PC strand operations with the closure of the Newnan facility, which was completed in March 2015.

Internet Access to Company Information

Additional information about us and our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments thereto, are available at no cost on our web site at http://investor.insteel.com/sec.cfm and the SEC's web site at www.sec.gov as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information available on our web site and the SEC's web site is not part of this report and shall not be deemed incorporated into any of our SEC filings.

Products

Our operations are entirely focused on the manufacture and marketing of steel wire reinforcing products for concrete construction applications. The Company's concrete reinforcing products are comprised of two product lines: PC strand and WWR. Based on the criteria specified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, Segment Reporting, the Company has one reportable segment.

PC strand is a high strength, seven-wire strand that is used to impart compression forces into precast concrete elements and structures, which may be either pretensioned or posttensioned, providing reinforcement for bridges, parking decks, buildings and other concrete structures. Pretensioned or "prestressed" concrete elements or structures are primarily used in nonresidential construction while posttensioned concrete elements or structures are used in both nonresidential and residential construction. For fiscal years 2015, 2014 and 2013, PC strand sales represented 43%, 38% and 37%, respectively, of our net sales.

WWR is produced as either a standard or a specially engineered reinforcing product for use in nonresidential and residential construction. We produce a full range of WWR products, including ESM, CPR and SWWR. ESM is an engineered made-to-order product that is used as the primary reinforcement for concrete elements or structures, frequently serving as a replacement for hot-rolled rebar due to the cost advantages that it offers. CPR is an engineered made-to-order product that is used as the primary reinforcement in concrete pipe, box culverts and precast manholes for drainage and sewage systems, water treatment facilities and other related applications. SWWR is a secondary reinforcing product that is produced in standard styles for crack control applications in residential and light nonresidential construction, including driveways, sidewalks and various slab-on-grade applications. For fiscal years 2015, 2014 and 2013, WWR sales represented 57%, 62% and 63%, respectively, of our net sales.

Marketing and Distribution

We market our products through sales representatives who are our employees. Our outside sales representatives are trained in the technical applications of our products and sell multiple product lines in their respective territories. We sell our products nationwide as well as into Canada, Mexico, and Central and South America, delivering our products primarily by truck, using common or contract carriers. The delivery method selected is dependent upon backhaul opportunities, comparative costs and customer service requirements.

Customers

We sell our products to a broad range of customers that includes manufacturers of concrete products, and to a lesser extent, distributors, rebar fabricators and contractors. In fiscal 2015, we estimate that approximately 70% of our net sales were to manufacturers of concrete products and 30% were to distributors, rebar fabricators and contractors. In many cases we are unable to identify the specific end use for our products as a high percentage of our customers sell into both the nonresidential and residential construction sectors. There were no customers that represented 10% or more of our net sales in fiscal years 2015, 2014 and 2013, and the Company is not dependent on a single customer, or a few customers, the loss of which would be expected to have a material adverse effect.

Backlog

Backlog is minimal for our business because of the relatively short lead times that are required by our customers. We believe that the majority of our firm orders existing on October 3, 2015 will be shipped prior to the end of the first quarter of fiscal 2016.

Product Warranties

Our products are used in applications which are subject to inherent risks including performance deficiencies, personal injury, property damage, environmental contamination or loss of production. We warrant our products to meet certain specifications and actual or claimed deficiencies from these specifications may give rise to claims, although we do not maintain a reserve for warranties as the historical claims have been immaterial. We maintain product liability insurance coverage to minimize our exposure to such risks.

Seasonality and Cyclicality

Demand in our markets is both seasonal and cyclical, driven by the level of construction activity, but can also be impacted by fluctuations in the inventory positions of our customers. From a seasonal standpoint, the highest level of shipments within the year typically occurs when weather conditions are the most conducive to construction activity. As a result, shipments and profitability are usually higher in the third and fourth quarters of the fiscal year and lower in the first and second quarters. From a cyclical standpoint, the level of construction activity tends to be correlated with general economic conditions although there can be significant differences between the relative performance of the nonresidential and residential construction sectors for extended periods.

Raw Materials

The primary raw material used to manufacture our products is hot-rolled carbon steel wire rod, which we purchase from both domestic and foreign suppliers. Wire rod can generally be characterized as a commodity product. We purchase several different grades and sizes of wire rod with varying specifications based on the diameter, chemistry, mechanical properties and metallurgical characteristics that are required for our end products. High carbon grades of wire rod are required for the production of PC strand while low carbon grades are used to manufacture WWR.

Pricing for wire rod tends to fluctuate based on both domestic and global market conditions. In most economic environments, domestic demand for wire rod exceeds domestic production capacity and imports of wire rod are necessary to satisfy the supply requirements of the U.S. market. Trade actions initiated by domestic wire rod producers can significantly impact the pricing and availability of imported wire rod, which during fiscal years 2015 and 2014 represented approximately 29% and 30%, respectively, of our total wire rod purchases. We believe that the substantial volume of our wire rod requirements, our desirable mix of sizes and grades, and our strong financial condition represents a competitive advantage by making us a more attractive customer to our suppliers relative to our competitors.

Our ability to source wire rod from overseas suppliers is limited by domestic content requirements generally referred to as “Buy America” or “Buy American” laws that exist at both the federal and state levels. These laws generally require a domestic “melt and cast” standard for purposes of compliance. Certain segments of the PC strand market and the majority of our CPR and ESM products are certified to customers to be in compliance with the domestic content regulations.

Selling prices for our products tend to be correlated with changes in wire rod prices. However, the timing and magnitude of the relative price changes varies depending upon market conditions and competitive factors. The relative supply and demand conditions in our markets determine whether our margins expand or contract during periods of rising or falling wire rod prices.

Competition

We believe that we are the largest domestic producer of PC strand and WWR. The markets in which our business is conducted are highly competitive. Some of our competitors, such as Nucor Corporation, Keystone Steel & Wire Co., Oklahoma Steel and Wire, and Gerdau Long Products North America, are vertically integrated companies that produce both wire rod and concrete reinforcing products and offer multiple product lines over broad geographic areas. Other competitors are smaller independent companies that offer limited competition in certain markets. Market participants compete on the basis of price, quality and service. Our primary competitors for WWR products are Nucor Corporation, Gerdau Ameristeel Corporation, Engineered Wire Products, Inc., Davis Wire Corporation, Oklahoma Steel & Wire Co., Inc., Concrete Reinforcements Inc. and Wire Mesh Corporation. Our primary competitors for PC strand are Sumiden Wire Products Corporation, Strand-Tech Martin, Inc. and Wire Mesh Corporation. Import competition is also a significant factor in certain segments of the PC strand market.

In response to irrationally-priced import competition from offshore PC strand suppliers, we have pursued trade cases when necessary as a means of ensuring that foreign producers were complying with the applicable trade laws and regulations. In 2003, we, together with a coalition of domestic producers of PC strand, obtained a favorable determination from the U.S. Department of Commerce (the “DOC”) in response to the petitions we had filed alleging that imports of PC strand from Brazil, India, Korea, Mexico and Thailand were being “dumped” or sold in the U.S. at a price that was lower than fair value and had injured the domestic PC strand industry. The DOC imposed anti-dumping duties ranging from 12% up to 119%, which had the effect of limiting the participation of these countries in the domestic market. In 2010, we, together with a coalition of domestic producers of PC strand, obtained favorable determinations from the DOC in response to the petitions we had filed alleging that imports of PC strand from China were being “dumped” or sold in the U.S. at a price that was lower than fair value and that subsidies were being provided to Chinese PC strand producers by the Chinese government, both of which had injured the domestic PC strand industry. The DOC imposed final countervailing duty margins ranging from 9% to 46% and anti-dumping margins ranging from 43% to 194%, which had the effect of limiting the continued participation of Chinese producers in the domestic market.

Quality and service expectations of customers have risen substantially over the years and are key factors that impact their selection of suppliers. Technology has become a critical competitive factor from the standpoint of manufacturing costs, quality and customer service capabilities. In view of our strong market positions, broad product offering and geographic footprint, technologically advanced manufacturing facilities, low cost production capabilities and sophisticated information systems, we believe that we are well-positioned to compete favorably with other producers of our concrete reinforcing products.

Employees

As of October 3, 2015, we employed 790 people. The Company has no contracts with labor unions and has not experienced any work stoppages. We believe that our relationship with our employees is good. Should we experience a disruption of production, we believe that our contingency plans would enable us to continue serving our customers, although there can be no assurances that a work slowdown or stoppage would not adversely impact our operating costs and overall financial results.

Financial Information

For information with respect to revenue, operating profitability and identifiable assets attributable to our business and geographic areas, see the items referenced in Item 6, Selected Financial Data; Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Note 14 to the consolidated financial statements.

Environmental Matters

We believe that we are in compliance in all material respects with applicable environmental laws and regulations. We have experienced no material difficulties in complying with legislative or regulatory standards and believe that these standards have not materially impacted our financial position or results of operations. Although our future compliance with additional environmental requirements could necessitate capital outlays, we do not believe that these expenditures would ultimately have a material adverse effect on our financial position or results of operations. Although we expect to incur some environmental control facility costs during fiscal years 2016 and 2017 in connection with our expansion of the Houston facility, we do not expect these capital expenditures to have a material effect on our financial position or results of operations.

Executive Officers of the Company

Our executive officers are as follows:

Name	Age	Position
H.O. Woltz III	59	President, Chief Executive Officer and Chairman of the Board
Michael C. Gazmarian	56	Vice President, Chief Financial Officer and Treasurer
James F. Petelle	65	Vice President - Administration and Secretary
Richard T. Wagner	56	Vice President and General Manager of IWP

H. O. Woltz III, 59, was elected Chief Executive Officer in 1991 and has been employed by us and our subsidiaries in various capacities since 1978. He was named President and Chief Operating Officer in 1989. He served as our Vice President from 1988 to 1989 and as President of Rappahannock Wire Company, formerly a subsidiary of our Company, from 1981 to 1989. Mr. Woltz has been a Director since 1986 and also serves as President of Insteel Wire Products Company. Mr. Woltz served as President of Florida Wire and Cable, Inc., formerly a subsidiary of our Company, until its merger with Insteel Wire Products Company in 2002. Mr. Woltz serves on the Executive Committee of our Board of Directors and was elected Chairman of the Board in 2009.

Michael C. Gazmarian, 56, was elected Vice President, Chief Financial Officer and Treasurer in February 2007. He had previously served as Chief Financial Officer and Treasurer since 1994, the year he joined us. Before joining us, Mr. Gazmarian had been employed by Guardian Industries Corp., a privately-held manufacturer of glass, automotive and building products, since 1986, serving in various financial capacities.

James F. Petelle, 65, joined us in October 2006. He was elected Vice President and Assistant Secretary on November 14, 2006 and Vice President - Administration and Secretary on January 12, 2007. He was previously employed by Andrew Corporation, a publicly-held manufacturer of telecommunications infrastructure equipment, having served as Secretary from 1990 to May 2006, and Vice President - Law from 2000 to October 2006.

Richard T. Wagner, 56, joined us in 1992 and has served as Vice President and General Manager of the Concrete Reinforcing Products Business Unit of the Company’s subsidiary, Insteel Wire Products Company, since 1998. In February 2007, Mr. Wagner was appointed Vice President of the parent company, Insteel Industries, Inc. From 1977 until 1992, Mr. Wagner served in various positions with Florida Wire and Cable, Inc., a manufacturer of PC strand and galvanized strand products that was later acquired by the Company in 2000.

The executive officers listed above were elected by our Board of Directors at its annual meeting held February 17, 2015 for a term that will expire at the next annual meeting of the Board of Directors or until their successors are elected and qualify. The next meeting at which officers will be elected is expected to be February 11, 2016.

Item 1A. Risk Factors

You should carefully consider all of the information set forth in this annual report on Form 10-K, including the following risk factors, before investing in any of our securities. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that are currently unknown to us or that we currently consider to be immaterial may also impair our business or adversely affect our financial condition and results of operations. We may amend or supplement these risk factors from time to time by other future reports and statements that we file with the SEC.

Our business is cyclical and can be negatively impacted by prolonged economic downturns or reduced availability of financing in the credit markets that reduce the level of construction activity and demand for our products.

Demand for our concrete reinforcing products is cyclical in nature and sensitive to changes in the economy and in the availability of financing in the credit markets. Our products are sold primarily to manufacturers of concrete products for the construction industry and used for a broad range of nonresidential and residential construction applications. Demand in these markets is driven by the level of construction activity, which tends to be correlated with conditions in the general economy as well as other factors beyond our control. Tightening in the credit markets could unfavorably impact demand for our products by reducing the availability of financing to our customers and the construction industry as a whole. Future prolonged periods of economic weakness or reduced availability of financing could have a material adverse impact on our business, results of operations, financial condition and cash flows.

Our business can be negatively impacted by reductions in the amount and duration of government funding for infrastructure projects that reduce the level of construction activity and demand for our products.

Certain of our products are used in the construction of highways, bridges and other infrastructure projects that are funded by federal, state and local governments. Reductions in the amount of funding for such projects or the period for which it is provided could have a material adverse impact on our business, results of operations, financial condition and cash flows.

Our operations are subject to seasonal fluctuations that may impact our cash flow.

Our shipments are generally lower in the first and second fiscal quarters primarily due to the unfavorable impact of winter weather conditions on construction activity and customer plant shutdowns associated with holidays. As a result, our cash flow from operations may vary from quarter to quarter due to these seasonal factors.

Demand for our products is highly variable and difficult to forecast due to our minimal backlog and the unanticipated changes that can occur in customer order patterns or inventory levels.

Demand for our products is highly variable. The short lead times for customer orders and minimal backlog that characterize our business make it difficult to forecast the future level of demand for our products. In some cases, unanticipated downturns in demand can be exacerbated by inventory reduction measures pursued by our customers. The combination of these factors may cause significant fluctuations in our sales, profitability and cash flows.

Our customers may be adversely affected by negative macroeconomic conditions and tightening in the credit markets.

Negative macroeconomic conditions and tightening in the credit markets could limit the ability of our customers to fund their financing requirements, thereby reducing their purchasing volume with us. Furthermore, a reduction in the availability of credit may increase the risk of customers defaulting on their payment obligations to us. The occurrence of these events could materially and adversely impact our business, financial condition and results of operations.

Our financial results can be negatively impacted by the volatility in the cost and availability of our primary raw material, hot-rolled carbon steel wire rod.

The primary raw material used to manufacture our products is hot-rolled carbon steel wire rod, which we purchase from both domestic and foreign suppliers. We do not use derivative commodity instruments to hedge our exposure to changes in the price of wire rod as such instruments are currently unavailable in the financial markets. Beginning in fiscal 2004, a tightening of supply in the rod market together with fluctuations in the raw material costs of rod producers resulted in increased price volatility which has continued through fiscal 2015. In response to the increased pricing volatility, wire rod producers have resorted to increasing the frequency of price adjustments, typically on a monthly basis as well as unilaterally changing the terms of prior commitments.

Although changes in our wire rod costs and selling prices tend to be correlated, depending upon market conditions, there may be periods during which we are unable to fully recover increased rod costs through higher selling prices, which would reduce our earnings and cash flow from operations. Additionally, should raw material costs decline, our financial results may be negatively impacted if the selling prices for our products decrease to an even greater degree and to the extent that we are consuming higher cost material from inventory.

Our financial results can also be significantly impacted if raw material supplies are inadequate to satisfy our purchasing requirements. In addition, trade actions by domestic wire rod producers against offshore suppliers can have a substantial impact on the availability and cost of imported wire rod. The imposition of anti-dumping or countervailing duty margins by the DOC against exporting countries can have the effect of reducing or eliminating their activity in the domestic market, which is of increasing significance in view of the reductions in domestic wire rod production capacity that have occurred in recent years. If we were unable to obtain adequate and timely delivery of our raw material requirements, we may be unable to manufacture sufficient quantities of our products or operate our manufacturing facilities in an efficient manner, which could result in lost sales and higher operating costs.

Foreign competition could adversely impact our financial results.

Our PC strand business is subject to offshore import competition on an ongoing basis in that domestic production capacity is insufficient to satisfy domestic demand in most market environments. If we are unable to purchase raw materials and achieve manufacturing costs that are competitive with those of foreign producers, or if the margin and return requirements of foreign producers are substantially lower, our market share and profit margins could be negatively impacted. In response to irrationally-priced import competition from offshore PC strand suppliers, we have pursued trade cases when necessary as a means of ensuring that foreign producers were complying with the applicable trade laws and regulations. These trade cases have resulted in the imposition of duties which have had the effect of limiting the continued participation of certain countries in the domestic market. Trade law enforcement is critical to our ability to maintain our competitive position against foreign PC strand producers that engage in unlawful trade practices.

Our manufacturing facilities are subject to unexpected equipment failures, operational interruptions and casualty losses.

Our manufacturing facilities are subject to risks that may limit our ability to manufacture products, including unexpected equipment failures and catastrophic losses due to other unanticipated events such as fires, explosions, accidents, adverse weather conditions and transportation interruptions. For example, on January 21, 2014, a fire occurred at the Company's Gallatin, Tennessee PC strand manufacturing facility, damaging a portion of the facility and requiring the temporary curtailment of operations until the necessary repairs were completed. Any such equipment failures or events can subject us to material plant shutdowns, periods of reduced production or unexpected downtime. Furthermore, the resolution of certain operational interruptions may require significant capital expenditures. Although our insurance coverage could offset the losses or expenditures relating to some of these events, our results of operations and cash flows could be negatively impacted to the extent that such claims were not covered or only partially covered by our insurance.

Our financial results could be adversely impacted by the escalation of our operating costs.

Our employee benefit costs, particularly our medical and workers' compensation costs, have increased substantially in recent years and are expected to continue to rise. The Patient Protection and Affordable Care and Education Reconciliation Act of 2010 will have a significant impact on employers, health care providers, insurers and others associated with the health care industry and is expected to increase our employee health care costs. This legislation requires certain large employers like the Company to offer health care benefits to full-time employees or face potential annual penalties. To avoid these penalties, employers must offer health benefits providing a minimum level of coverage and limit the amount that employees are charged for the coverage. Provisions of this law have become and will become effective at various dates over the next several years and many of the regulations and guidance for the law have not been implemented. Due to the breadth and complexity of this law, the lack of implementing regulations and interpretive guidance and the phased-in nature of the requirement, we cannot predict the future effect of this law on our results. Any significant increases in the costs attributable to our self-insured health and workers' compensation plans could adversely impact our business, financial condition and results of operations.

In addition, higher prices for natural gas, electricity, fuel and consumables increase our manufacturing and distribution costs. Most of our sales are made under terms whereby we incur the fuel costs and surcharges associated with the delivery of products to our customers. Although we have previously implemented numerous measures to offset the impact of increases in these costs, there can be no assurance that such actions will be effective. If we are unable to pass these additional costs through by raising selling prices, our financial results could be adversely impacted.

Our financial results could be adversely impacted by the impairment of goodwill.

Our balance sheet includes intangible assets, including goodwill and other separately identifiable assets primarily related to the ASW Acquisition. We may acquire additional intangible assets in connection with future acquisitions as part of our growth strategy. We are required to review goodwill for impairment on an annual basis, or more frequently if certain indicators of permanent impairment arise such as, among other things, a decline in our stock price and market capitalization and lower than projected operating results and cash flows. If our review determined that goodwill had been impaired, the impaired portion would have to be written-off during that period which could have an adverse effect on our business and financial results.

Our capital resources may not be adequate to provide for our capital investment and maintenance expenditures if we were to experience a substantial downturn in our financial performance.

Our operations are capital intensive and require substantial recurring expenditures for the routine maintenance of our equipment and facilities. Although we expect to finance our business requirements through internally generated funds or from borrowings under our $100.0 million revolving credit facility, we cannot provide any assurances these resources will be sufficient to support our business. A material adverse change in our operations or financial condition could limit our ability to borrow funds under our credit facility, which could further adversely impact our liquidity and financial condition. Any significant future acquisitions could require additional financing from external sources that may not be available on favorable terms, which could adversely impact our operations, growth plans, financial condition and results of operations.

Environmental compliance and remediation could result in substantially increased capital investments and operating costs.

Our business is subject to numerous federal, state and local laws and regulations pertaining to the protection of the environment that could require substantial increases in capital investments and operating costs. These laws and regulations, which are constantly evolving, are becoming increasingly stringent and the ultimate impact of compliance is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision.

Our stock price can be volatile, often in connection with matters beyond our control.

Equity markets in the U.S. have been increasingly volatile in recent years. During fiscal 2015, our common stock traded as high as $24.85 and as low as $14.61. There are numerous factors that could cause the price of our common stock to fluctuate significantly, including: variations in our quarterly and annual financial results; changes in our business outlook and the expectations for the construction industry; changes in market valuations of companies in our industry; and announcements by us, our competitors or industry participants that may be perceived to impact us or our operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Insteel's corporate headquarters and IWP's sales and administrative offices are located in Mount Airy, North Carolina. At October 3, 2015, we operated ten manufacturing facilities located in Dayton, Texas; Gallatin, Tennessee; Hazleton, Pennsylvania; Hickman, Kentucky; Houston, Texas; Jacksonville, Florida; Kingman, Arizona; Mount Airy, North Carolina; Sanderson, Florida; and St. Joseph, Missouri.

We own all of our real estate except for the facility located in Houston, Texas, which we currently lease from ASW with an option to purchase in the future. We believe that our properties are in good operating condition and that our machinery and equipment have been well maintained. We also believe that our manufacturing facilities are suitable for their intended purposes and have capacities adequate to satisfy the current and projected needs for our existing products.

Item 3. Legal Proceedings.

We are involved in lawsuits, claims, investigations and proceedings, including commercial, environmental and employment matters, which arise in the ordinary course of business. We do not anticipate that the ultimate cost to resolve these other matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "IIIN" and has been trading on NASDAQ since September 28, 2004. As of October 26, 2015, there were 716 shareholders of record. The following table summarizes the high and low sales prices as reported on the NASDAQ Global Select Market and the cash dividends per share declared in fiscal 2015 and 2014:

	Fiscal 2015			**Fiscal 2014**		
	High	**Low**	**Cash Dividends**	**High**	**Low**	**Cash Dividends**
First Quarter	$24.85	$19.05	$ 0.03	$23.18	$15.45	$ 0.03
Second Quarter	24.44	18.60	0.03	23.04	17.91	0.03
Third Quarter	22.85	18.15	0.03	24.26	18.66	0.03
Fourth Quarter	19.79	14.61	0.03	24.25	18.17	0.03

We currently pay a quarterly cash dividend of $0.03 per share. While we intend to pay regular quarterly cash dividends for the foreseeable future, the declaration and payment of future dividends, if any, are discretionary and will be subject to determination by the Board of Directors each quarter after taking into account various factors, including general business conditions and our financial condition, operating results, cash requirements and expansion plans. See Note 8 of the consolidated financial statements for additional discussion with respect to restrictions on our ability to make dividend payments under the terms of our revolving credit facility.

Stock Performance Graph

The line graph below compares the cumulative total shareholder return on our common stock with the cumulative total return of the Russell 2000 Index and the S&P Building Products Index for the five years ended October 3, 2015. The graph and table assume that $100 was invested on October 2, 2010 in each of our common stock, the Russell 2000 Index and the S&P Building Products Index, and that all dividends were reinvested. Cumulative total shareholder returns for our common stock, the Russell 2000 Index and the S&P Building Products Index are based on our fiscal year.

	Fiscal Year Ended					
	10/2/10	**10/1/11**	**9/29/12**	**9/28/13**	**9/27/14**	**10/3/15**
Insteel Industries, Inc.	100.00	113.90	134.11	188.18	248.09	191.62
Russell 2000	100.00	96.47	127.25	165.50	172.01	174.15
S&P Building Products	100.00	66.21	143.86	206.96	237.79	287.95

Issuer Purchases of Equity Securities

On November 18, 2008, our Board of Directors approved a share repurchase authorization to buy back up to $25.0 million of our outstanding common stock. Repurchases may be made from time to time in the open market or in privately negotiated transactions subject to market conditions, applicable legal requirements and other factors. We are not obligated to acquire any particular amount of common stock and may commence or suspend the program at any time at our discretion without prior notice. The share repurchase authorization continues in effect until terminated by the Board of Directors. As of October 3, 2015, there was $24.8 million remaining available for future share repurchases under this authorization. We did not repurchase any shares of our common stock during fiscal 2015 and 2014.

Rights Agreement

On April 21, 2009, the Board of Directors adopted Amendment No. 1 to Rights Agreement, effective April 25, 2009, amending the Rights Agreement dated as of April 27, 1999 between us and American Stock Transfer & Trust Company, LLC, successor to First Union National Bank. Amendment No. 1 and the Rights Agreement are hereinafter collectively referred to as the “Rights Agreement.” In connection with adopting the Rights Agreement, on April 26, 1999, the Board of Directors declared a dividend distribution of one right per share of our outstanding common stock as of May 17, 1999. The Rights Agreement also provides that one right will attach to each share of our common stock issued after May 17, 1999. Each right entitles the registered holder to purchase from us on certain dates described in the Rights Agreement one two-hundredths of a share (a “Unit”) of our Series A Junior Participating Preferred Stock at a purchase price of $46 per Unit, subject to adjustment as described in the Rights Agreement. For more information regarding our Rights Agreement, see Note 18 to the consolidated financial statements.

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Item 6. Selected Financial Data.

Financial Highlights

(In thousands, except per share amounts)

	Year Ended				
	(53 weeks)	**(52 weeks)**	**(52 weeks)**	**(52 weeks)**	**(52 weeks)**
	October 3, 2015	**September 27, 2014**	**September 28, 2013**	**September 29, 2012**	**October 1, 2011**
Net sales	$447,504	$ 408,978	$ 363,896	$ 363,303	$336,909
Net earnings (loss)	21,710	16,641	11,735	1,809	(387)
Net earnings (loss) per share (basic)	1.18	0.91	0.65	0.10	(0.02)
Net earnings (loss) per share (diluted)	1.15	0.89	0.64	0.10	(0.02)
Cash dividends declared	0.12	0.12	0.37	0.12	0.12
Total assets	260,239	256,795	212,649	208,552	216,530
Total debt	-	-	-	11,475	14,156
Shareholders' equity	200,215	178,883	161,056	149,500	148,474

As summarized more fully in Item 7 below, on August 15, 2014, we, through our wholly-owned subsidiary, IWP, purchased substantially all the assets associated with the PC strand business of ASW. This transaction may materially affect the comparability of the information reflected in the selected financial data presented in this Item 6.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The matters discussed in this section include forward-looking statements that are subject to numerous risks. You should carefully read the "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" in this Form 10-K.

Overview

Our operations are entirely focused on the manufacture and marketing of concrete reinforcing products for the concrete construction industry. Our business strategy is focused on: (1) achieving leadership positions in our markets;

(2) operating as the lowest cost producer; and (3) pursuing growth opportunities within our core businesses that further our penetration of the markets we currently serve or expand our geographic footprint.

On August 15, 2014, we, through our wholly-owned subsidiary, IWP, purchased substantially all of the assets associated with the PC strand business of ASW for a final adjusted purchase price of $33.5 million. ASW manufactured PC strand at facilities located in Houston, Texas and Newnan, Georgia (see Note 4 to the consolidated financial statements). We acquired, among other assets, the accounts receivable and inventories related to ASW's PC strand business, the production equipment at its facility in Houston, Texas and its production equipment and facility in Newnan, Georgia. We also entered into an agreement pursuant to which we lease the Houston facility from ASW with an option to purchase it in the future. Subsequent to the acquisition, we elected to consolidate our PC strand operations with the closure of the Newnan facility, which was completed in March 2015.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Our discussion and analysis of our financial condition and results of operations are based on these financial statements. The preparation of our consolidated financial statements requires the application of these accounting principles in addition to certain estimates and judgments based on current available information, actuarial estimates, historical results and other assumptions believed to be reasonable. Actual results could differ from these estimates.

Following is a discussion of our most critical accounting policies, which are those that are both important to the depiction of our financial condition and results of operations and that require judgments, assumptions and estimates.

Revenue recognition. We recognize revenue from product sales when products are shipped and risk of loss and title has passed to the customer. Sales taxes collected from customers are recorded on a net basis and as such, are excluded from revenue.

Concentration of credit risk. Financial instruments that subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Our cash is concentrated primarily at one financial institution, which at times exceeds federally insured limits. We are exposed to credit risk in the event of default by institutions in which our cash and cash equivalents are held and by customers to the extent of the amounts recorded on the balance sheet. We invest excess cash primarily in money market funds, which are highly liquid securities that bear minimal risk.

Most of our accounts receivable are due from customers that are located in the U.S. and we generally require no collateral depending upon the creditworthiness of the account. We provide an allowance for doubtful accounts based upon our assessment of the credit risk of specific customers, historical trends and other information. There is no disproportionate concentration of credit risk.

Allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the potential inability of our customers to make required payments on outstanding balances owed to us. Significant management judgments and estimates are used in establishing the allowances. These judgments and estimates consider such factors as customers' financial position, cash flows and payment history as well as current and expected business conditions. It is reasonably likely that actual collections will differ from our estimates, which may result in increases or decreases in the allowances. Adjustments to the allowances may also be required if there are significant changes in the financial condition of our customers.

Inventory valuation. We periodically evaluate the carrying value of our inventory. This evaluation includes assessing the adequacy of allowances to cover losses in the normal course of operations, providing for excess and obsolete inventory, and ensuring that inventory is valued at the lower of cost or estimated net realizable value. Our evaluation considers such factors as the cost of inventory, future demand, our historical experience and market conditions. In assessing the realization of inventory values, we are required to make judgments and estimates regarding future market conditions. Because of the subjective nature of these judgments and estimates, it is reasonably likely that actual outcomes will differ from our estimates. Adjustments to these reserves may be required if actual market conditions for our products are substantially different than the assumptions underlying our estimates.

Long-lived assets**.** We review long-lived assets, which consist principally of property, plant and equipment and finite-lived intangibles, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be fully recoverable. Recoverability of long-lived assets to be held and used is measured based on the future net undiscounted cash flows expected to be generated by the related asset or asset group. If it is determined that an impairment loss has been incurred, the impairment loss is recognized in the period in which it is incurred and is calculated based on the difference between the carrying value and the present value of estimated future net cash flows or comparable market values. Assets to be disposed of by sale are recorded at the lower of carrying value or fair value less selling cost when we have committed to a disposal plan, and are reported separately as assets held for sale on our balance sheet. Unforeseen events and changes in circumstances and market conditions could negatively affect the value of assets and result in an impairment charge.

Goodwill. Goodwill is tested annually for impairment and whenever events or circumstances change that would make it more likely than not that an impairment may have occurred. We perform our annual impairment analysis as of the first day of the fourth quarter each fiscal year, which involves comparing the current estimated fair value of the reporting unit to its recorded value, including goodwill.

We perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. It may be necessary to perform a quantitative analysis where a discounted cash flow model is used to determine the current estimated fair value of the reporting unit. Key assumptions used to determine the fair value of the reporting unit as part of our annual testing (and any required interim testing) include: (a) expected cash flow for the five-year period following the testing date; (b) an estimated terminal value using a terminal year growth rate based on the growth prospects of the reporting unit; (c) a discount rate based on our estimated after-tax weighted average cost of capital; and (d) a probability-weighted scenario approach by which varying cash flows are assigned to alternative scenarios based on their likelihood of occurrence. In developing these assumptions, we consider historical and anticipated future results, general economic and market conditions, the impact of planned business and operational strategies and all available information at the time the fair value of the reporting unit is estimated.

We monitor our operating results throughout the year to determine if events or changes in circumstances warrant any interim impairment testing. Otherwise, goodwill will be subject to the required annual impairment test during our fourth quarter. Changes in the judgments and estimates underlying our analysis of goodwill for possible impairment, including the expected future operating cash flows and discount rate, could reduce our estimated fair value in the future and result in an impairment of goodwill. There was no goodwill impairment loss recognized in 2015.

Self-insurance. We are self-insured for certain losses relating to medical and workers' compensation claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for uninsured claims incurred using actuarial assumptions followed by the insurance industry and historical experience. These estimates are subject to a high degree of variability based upon future inflation rates, litigation trends, changes in benefit levels and claim settlement patterns. Because of uncertainties related to these factors as well as the possibility of changes in the underlying facts and circumstances, future adjustments to these reserves may be required.

Litigation. We are involved in claims, lawsuits and other proceedings, which arise in the ordinary course of business. The eventual outcome of such matters and the potential losses that we may ultimately incur are subject to a high degree of uncertainty. We record expenses for litigation when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We estimate the probability of such losses based on the advice of legal counsel, the outcome of similar litigation, the status of the lawsuits and other factors. Due to the numerous factors that enter into these judgments and assumptions, it is reasonably likely that actual outcomes will differ from our estimates. We monitor our potential exposure to these contingencies on a regular basis and may adjust our estimates as additional information becomes available or as there are significant developments.

Stock-based compensation. We account for stock-based compensation arrangements, including stock option grants and restricted stock units, in accordance with the provisions of ASC Topic 718, Compensation - Stock Compensation. Under these provisions, compensation cost is recognized based on the fair value of equity awards on the date of grant. The compensation cost is then amortized on a straight-line basis over the vesting period. We use the Monte Carlo valuation model to determine the fair value of stock options at the date of grant, which requires us to make assumptions such as expected term, volatility and forfeiture rates to determine the stock options' fair value. These assumptions are based on historical information and judgment regarding market factors and trends. If actual results differ from our assumptions and judgments used in estimating these factors, future adjustments to these estimates may be required.

Assumptions for employee benefit plans. We account for our defined employee benefit plans, the Insteel Wire Products Company Retirement Income Plan for Hourly Employees, Wilmington, Delaware (the "Delaware Plan") and the supplemental employee retirement plans (each, a "SERP") in accordance with FASB ASC Topic 715, Compensation - Retirement Benefits. Under the provisions of ASC Topic 715, we recognize net periodic pension costs and value pension assets or liabilities based on certain actuarial assumptions, principally the assumed discount rate and the assumed long-term rate of return on plan assets.

The discount rates we utilize for determining net periodic pension costs and the related benefit obligations for our plans are based, in part, on current interest rates earned on long-term bonds that receive one of the two highest ratings assigned by recognized rating agencies. Our discount rate assumptions are adjusted as of each valuation date to reflect current interest rates on such long-term bonds. The discount rates are used to determine the actuarial present value of the benefit obligations as of the valuation date as well as the interest component of the net periodic pension cost for the following year. The discount rate for the Delaware Plan and SERPs was 4.25% for 2015 and 2014, and 4.75% for 2013.

The assumed long-term rate of return on plan assets for the Delaware Plan represents the estimated average rate of return expected to be earned on the funds invested or to be invested in the plan's assets to fund the benefit payments inherent in the projected benefit obligations. Unlike the discount rate, which is adjusted each year based on changes in current long-term interest rates, the assumed long-term rate of return on plan assets will not necessarily change based upon the actual short-term performance of the plan assets in any given year. The amount of net periodic pension cost or benefit that is recorded each year is based on the assumed long-term rate of return on plan assets for the plan and

the actual fair value of the plan assets as of the beginning of the year. We regularly review our actual asset allocation and, when appropriate, rebalance the investments in the plan to more accurately reflect the targeted allocation.

For fiscal years 2015, 2014 and 2013, the assumed long-term rate of return utilized for the Delaware Plan assets was 8%. We currently expect to use the same assumed rate for the long-term return on plan assets in fiscal 2016. In determining the appropriateness of this assumption, we considered the historical rate of return on the plan assets, the current and projected asset mix, our investment objectives and information provided by our third-party investment advisors.

The projected benefit obligations and net periodic pension cost for the SERPs are based in part on expected increases in future compensation levels. Our assumption for the expected increase in future compensation levels is based upon our average historical experience and our intentions regarding future compensation increases, which generally approximates average long-term inflation rates.

Assumed discount rates and rates of return on plan assets are reevaluated annually. Changes in these assumptions can result in the recognition of materially different pension costs over different periods and materially different asset and liability amounts in our consolidated financial statements. A reduction in the assumed discount rate generally results in an actuarial loss, as the actuarially-determined present value of estimated future benefit payments will increase. Conversely, an increase in the assumed discount rate generally results in an actuarial gain. In addition, an actual return on plan assets for a given year that is greater than the assumed return on plan assets results in an actuarial gain, while an actual return on plan assets that is less than the assumed return results in an actuarial loss. Other actual outcomes that differ from previous assumptions, such as individuals living longer or shorter lives than assumed in the mortality tables that are also used to determine the actuarially-determined present value of estimated future benefit payments, changes in such mortality tables themselves or plan amendments will also result in actuarial losses or gains. Under GAAP, actuarial gains and losses are deferred and amortized into income over future periods based upon the expected average remaining service life of the active plan participants (for plans for which benefits are still being earned by active employees) or the average remaining life expectancy of the inactive participants (for plans for which benefits are not still being earned by active employees). However, any actuarial gains generated in future periods reduce the negative amortization effect of any cumulative unamortized actuarial losses, while any actuarial losses generated in future periods reduce the favorable amortization effect of any cumulative unamortized actuarial gains.

The amounts recognized as net periodic pension cost and as pension assets or liabilities are based upon the actuarial assumptions discussed above. We believe that all of the actuarial assumptions used for determining the net periodic pension costs and pension assets or liabilities related to the Delaware Plan are reasonable and appropriate. The funding requirements for the Delaware Plan are based upon applicable regulations, and will generally differ from the amount of pension cost recognized under ASC Topic 715 for financial reporting purposes. During fiscal years 2015, 2014 and 2013, we made contributions totaling $234,000, $240,000 and $307,000, respectively, to the Delaware Plan.

We currently expect net periodic pension cost for fiscal 2016 to be $32,000 for the Delaware Plan and $676,000 for the SERPs. Cash contributions to the plans during fiscal 2016 are expected to be $246,000 for the Delaware Plan and $290,000 for the SERPs.

A 0.25% decrease in the assumed discount rate for the Delaware Plan would have increased our projected and accumulated benefit obligations as of October 3, 2015 by approximately $106,000 and have no impact on our expected net periodic pension cost for 2016. A 0.25% decrease in the assumed discount rate for our SERPs would have increased our projected and accumulated benefit obligations as of October 3, 2015 by approximately $245,000 and $199,000, respectively, and our expected net periodic pension cost for fiscal 2016 by approximately $25,000.

A 0.25% decrease in the assumed long-term rate of return on plan assets for the Delaware Plan would have increased our expected net periodic pension cost for fiscal 2016 by approximately $6,000.

Recent Accounting Pronouncements.

The nature and impact of recent accounting pronouncements is discussed in Note 3 to our consolidated financial statements and incorporated herein by reference.

Results of Operations

Statements of Operations – Selected Data

(Dollars in thousands)

Year Ended

	October 3, 2015	Change	September 27, 2014	Change	September 28, 2013
Net sales	$447,504	9.4 %	$ 408,978	12.4 %	$ 363,896
Gross profit	58,333	19.6 %	48,773	24.3 %	39,233
Percentage of net sales	13.0 %		11.9 %		10.8 %
Selling, general and administrative expense	$25,824	10.5 %	$ 23,371	13.0 %	$ 20,682
Percentage of net sales	5.8 %		5.7 %		5.7 %
Restructuring charges, net	$349	(72.0%)	$ 1,247	100.0 %	$ -
Acquisition costs	-	(100.0%)	612	100.0 %	-
Other expense (income), net	(1,113)	(41.6%)	(1,907)	N/M	333
Interest expense	320	27.0 %	252	7.2 %	235
Interest income	(11)	10.0 %	(10)	(28.6%)	(14)
Effective income tax rate	34.1 %		34.0 %		34.8 %
Net earnings	$21,710	30.5 %	$ 16,641	41.8 %	$ 11,735

“N/M” = not meaningful

2015 Compared with 2014

Net Sales

Net sales increased 9.4% to $447.5 million in 2015 from $409.0 million in 2014. Shipments for the year increased 10.0% while average selling prices decreased 0.5% from the prior year levels. The increase in shipments was primarily driven by the additional business provided by the ASW Acquisition. Sales for both years reflect reduced volumes relative to prerecession levels in our construction end-markets.

Gross Profit

Gross profit increased 19.6% to $58.3 million, or 13.0% of net sales, in 2015 from $48.8 million, or 11.9% of net sales, in 2014. The year-over-year increase was primarily due to wider spreads between average selling prices and raw material costs ($11.4 million) and higher shipments ($5.3 million) partially offset by higher unit conversion costs ($7.0 million). The increase in spreads was driven by lower raw material costs ($13.2 million) and freight expense ($0.9 million) partially offset by lower average selling prices ($2.7 million). Gross profit for both years was unfavorably impacted by reduced shipment volumes and elevated unit conversion costs relative to prerecession levels largely driven by reduced operating schedules.

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Selling, General and Administrative Expense

Selling, general and administrative expense (“SG&A expense”) increased 10.5% to $25.8 million, or 5.8% of net sales, in 2015 from $23.4 million, or 5.7% of net sales, in 2014 primarily due to increases in compensation expense ($650,000), amortization expense associated with intangible assets ($619,000) and employee benefit costs ($435,000) together with the relative year-over-year change in the cash surrender value of life insurance policies ($474,000). The increase in compensation expense was largely driven by higher incentive plan expense due to our improved financial results in the current year. The increase in amortization expense was primarily associated with the intangible assets that were acquired in connection with the ASW Acquisition. The increase in employee benefit costs was primarily due to higher employee health insurance and supplemental retirement plan expense. The cash surrender value of life insurance policies increased $39,000 in the current year period compared with $513,000 in the prior year period due to the changes in the value of the underlying investments.

Restructuring Charges, Net

Net restructuring charges of $0.3 million were incurred in 2015 compared with $1.2 million in 2014. The net restructuring charges for 2015 were related to the closure of the Newnan, Georgia PC strand facility that was acquired through the ASW Acquisition, including $0.6 million for facility closure costs, $0.5 million for impairment charges related to the decommissioning of equipment, $0.1 million for employee separation costs and $0.1 million for equipment relocation costs. These charges were partially offset by a $0.9 million gain on the sale of the real estate and certain of the equipment associated with the Newnan facility. The net restructuring charges for 2014 were for employee separation costs associated with staffing reductions that were implemented in connection with the ASW Acquisition.

Acquisition Costs

Acquisition costs of $0.6 million were incurred in 2014 for legal, accounting and other professional fees related to the ASW Acquisition. The accounting requirements for business combinations require the expensing of acquisition costs in the period in which they are incurred.

Other Expense (Income)

Other income for 2015 was $1.1 million compared to $1.9 million in 2014. The other income for 2015 was primarily related to a $1.7 million net gain from insurance proceeds attributable to the replacement of property and equipment

damaged in the fire at our Gallatin, Tennessee PC strand facility in 2014, partially offset by a $0.7 million charge related to the settlement of a customer dispute. The other income for 2014 was largely related to a net gain from insurance proceeds attributable to the replacement of property and equipment damaged in the Gallatin fire.

Interest Expense

Interest expense increased 27.0% to $320,000 in 2015 from $252,000 in 2014 primarily due to higher average debt outstanding during 2015.

Income Taxes

Our effective income tax rate for 2015 was essentially unchanged at 34.1% compared with 34.0% in 2014.

Net Earnings

Net earnings increased to $21.7 million ($1.15 per diluted share) in 2015 from $16.6 million ($0.89 per diluted share) in 2014 primarily due to the increase in gross profit partially offset by higher SG&A expense.

2014 Compared with 2013

Net Sales

Net sales increased 12.4% to $409.0 million in 2014 from $363.9 million in 2013. Shipments for the year increased 12.8% while average selling prices decreased 0.3% from the prior year levels. The increase in shipments was primarily due to improved market conditions and increased demand for our products relative to the prior year as well as the additional business provided by the ASW Acquisition for a portion of our fourth quarter. Sales for both years reflect reduced volumes relative to the prerecession levels in our construction end-markets.

Gross Profit

Gross profit increased 24.3% to $48.8 million, or 11.9% of net sales, in 2014 from $39.2 million, or 10.8% of net sales, in 2013. The year-over-year increase was primarily due to wider spreads between average selling prices and raw material costs ($6.8 million) and higher shipments ($5.4 million), partially offset by higher unit conversion costs ($1.2 million). The increase in spreads was driven by lower raw material costs ($8.5 million) partially offset by lower average selling prices ($1.4 million) and higher freight expense ($0.3 million). Gross profit for both years was unfavorably impacted by reduced shipment volumes and elevated unit conversion costs relative to prerecession levels largely driven by reduced operating schedules.

Selling, General and Administrative Expense

SG&A expense increased 13.0% to $23.4 million, or 5.7% of net sales, in 2014 from $20.7 million, or 5.7% of net sales, in 2013 primarily due to increases in compensation expense ($1.7 million), employee benefit costs ($0.3 million), amortization expense associated with intangible assets ($0.3 million) and bad debt expense ($0.2 million). The increase in compensation expense was largely driven by higher incentive plan expense due to our improved financial results in 2014. The increase in employee benefit costs was primarily due to higher employee health insurance costs during 2014. The increase in amortization expense was related to the intangible assets that were acquired in connection with the ASW Acquisition. The increase in bad debt expense was due to an adjustment to the allowance for doubtful accounts driven by the increase in sales and accounts receivable.

Restructuring Charges, Net

Net restructuring charges of $1.2 million were incurred in 2014 for employee separation costs associated with staffing reductions that were implemented in connection with the ASW Acquisition.

Acquisition Costs

Acquisition costs of $0.6 million were incurred in 2014 for legal, accounting and other professional fees related to the ASW Acquisition. The accounting requirements for business combinations require the expensing of acquisition costs in the period in which they are incurred.

Other Expense (Income)

Other income for 2014 was $1.9 million compared to $0.3 million of other expense in 2013. The other income for 2014 was primarily due to the net gain from insurance proceeds attributable to the replacement of property and equipment damaged in the Gallatin fire. Other expense for 2013 was primarily due to a net loss on the disposal of equipment.

Interest Expense

Interest expense increased 7.2% to $252,000 in 2014 from $235,000 in 2013 primarily due to higher average debt outstanding during 2014.

Income Taxes

Our effective income tax rate was 34.0% in 2014 compared with 34.8% in 2013 due to changes in permanent book versus tax differences.

Net Earnings

Net earnings increased to $16.6 million ($0.89 per diluted share) in 2014 from $11.7 million ($0.64 per diluted share) in 2013 primarily due to the increase in gross profit partially offset by higher SG&A expense together with the acquisition costs and restructuring charges associated with the ASW Acquisition.

Liquidity and Capital Resources

Selected Financial Data

(Dollars in thousands)

	Year Ended October 3, 2015	September 27, 2014	September 28, 2013
Net cash provided by operating activities	$35,774	$29,232	$36,828
Net cash used for investing activities	(3,039)	(40,375)	(6,294)
Net cash used for financing activities	(2,527)	(1,247)	(15,104)
Cash and cash equivalents	33,258	3,050	15,440
Net working capital	105,532	79,407	83,791
Total debt	-	-	-
Percentage of total capital	-	-	-
Shareholders' equity	$200,215	$178,883	$161,056
Percentage of total capital	100%	100%	100%
Total capital (total debt + shareholders' equity)	$200,215	$178,883	$161,056

Operating Activities

Operating activities provided $35.8 million of cash in 2015 primarily from net earnings adjusted for non-cash items and a reduction in the net working capital components of accounts receivable, inventories, and accounts payable and accrued expenses. Net working capital provided $2.3 million of cash due to a $15.9 million decrease in inventories and a $4.3 million decrease in accounts receivable partially offset by a $17.9 million decrease in accounts payable and accrued expenses. The decrease in inventories and accounts payable and accrued expenses was primarily due to lower raw material purchases and unit costs. The decrease in accounts receivable was related to lower selling prices.

Operating activities provided $29.2 million of cash in 2014 primarily from net earnings adjusted for non-cash items and a reduction in the net working capital components of accounts receivable, inventories, and accounts payable and accrued expenses. Net working capital provided $2.4 million of cash due to a $21.3 million increase in accounts payable and accrued expenses partially offset by a $16.8 million increase in inventories and a $2.1 million increase in accounts receivable. The increases in accounts payable and accrued expenses and inventories were largely related to higher raw material purchases driven by the increase in sales. The increase in accounts receivable was primarily due to the increase in sales.

Operating activities provided $36.8 million of cash in 2013 primarily from net earnings adjusted for non-cash items and a reduction in net working capital. Net working capital provided $9.7 million of cash due to a $7.0 million decrease in inventories, a $1.7 million increase in accounts payable and accrued expenses, and a $1.0 million decrease in accounts receivable. The decrease in inventories was primarily due to lower raw material purchases and unit costs. The increase in accounts payable and accrued expenses was largely related to changes in the mix of vendor payments and terms. The decrease in accounts receivable was primarily driven by a reduction in days sales outstanding.

We may elect to adjust our operating activities as there are changes in the conditions in our construction end-markets, which could materially impact our cash requirements. While a downturn in the level of construction activity affects sales to our customers, it generally reduces our working capital requirements.

Investing Activities

Investing activities used $3.0 million of cash in 2015, $40.4 million in 2014 and $6.3 million in 2013. In 2015, $7.2 million of cash was used for capital expenditures and $1.5 million for the acquisition of an intangible asset from a competitor, which was partially offset by $3.5 million of proceeds from the sale of the real estate and certain of the equipment associated with the Newnan facility, $1.7 million of insurance proceeds related to the Gallatin fire and $0.5 million of post-closing adjustments associated with the ASW Acquisition. In 2014, $33.9 million of cash was used to fund the ASW Acquisition and $9.0 million for capital expenditures (including $4.5 million to replace property and equipment damaged in the fire at the Gallatin facility), which was partially offset by $2.7 million of insurance proceeds related to the Gallatin fire. In 2013, $5.0 million of cash was used for capital expenditures and $1.9 million for an intangible asset in connection with the acquisition of certain assets from Tatano Wire and Steel, Inc., which was partially offset by $0.6 million of proceeds from life insurance claims. Our investing activities are largely discretionary, providing us with the ability to significantly curtail outlays should future business conditions warrant that such actions be taken.

Financing Activities

Financing activities used $2.5 million of cash in 2015, $1.2 million in 2014 and $15.1 million in 2013. In 2015, $2.2 million of cash was used for dividend payments and $0.2 million for financing costs that were incurred in connection with the amendment of our revolving credit facility. In 2014, $2.2 million of cash was used for dividend payments, which was partially offset by $1.1 million of proceeds from the exercise of stock options. In 2013, $11.5 million of cash was used to repay debt and $6.6 million for dividend payments (including a special cash dividend of $4.5 million and regular cash dividends totaling $2.1 million), which was partially offset by $3.4 million of proceeds from the exercise of stock options.

Cash Management

Our cash is principally concentrated at one financial institution, which at times exceeds federally insured limits. We invest excess cash primarily in money market funds, which are highly liquid securities that bear minimal risk.

Credit Facility

We have a $100.0 million revolving credit facility (the “Credit Facility”) that is used to supplement our operating cash flow and fund our working capital, capital expenditure, general corporate and growth requirements. In May 2015, we amended the Credit Facility to, among other changes, extend the maturity date from June 2, 2016 to May 13, 2020. Advances under the Credit Facility are limited to the lesser of the revolving loan commitment amount (currently $100.0 million) or a borrowing base amount that is calculated based upon a percentage of eligible receivables and inventories. As of October 3, 2015, no borrowings were outstanding on the Credit Facility, $80.3 million of borrowing capacity was available and outstanding letters of credit totaled $1.6 million (see Note 8 to the consolidated financial statements). During 2015, ordinary course borrowings on the Credit Facility were as high as $16.2 million. As of September 27, 2014, there were no borrowings outstanding on the Credit Facility.

We believe that, in the absence of significant unanticipated cash demands, cash generated by operating activities will be sufficient to satisfy our expected requirements for working capital, capital expenditures, dividends and share repurchases, if any. We also expect to have access to the amounts available under our Credit Facility. However, should we experience future reductions in our operating cash flows due to weakening conditions in our construction end-markets and reduced demand from our customers, we may need to curtail capital and operating expenditures, delay or restrict share repurchases, cease dividend payments and/or realign our working capital requirements.

Should we determine, at any time, that we require additional short-term liquidity, we would evaluate the alternative sources of financing that were potentially available to provide such funding. There can be no assurance that any such financing, if pursued, would be obtained, or if obtained, would be adequate or on terms acceptable to us. However, we believe that our strong balance sheet, flexible capital structure and borrowing capacity available to us under our Credit Facility position us to meet our anticipated liquidity requirements for the foreseeable future.

Impact of Inflation

We are subject to inflationary risks arising from fluctuations in the market prices for our primary raw material, hot-rolled steel wire rod, and, to a much lesser extent, freight, energy and other consumables that are used in our manufacturing processes. We have generally been able to adjust our selling prices to pass through increases in these costs or offset them through various cost reduction and productivity improvement initiatives. However, our ability to raise our selling prices depends on market conditions and competitive dynamics, and there may be periods during which we are unable to fully recover increases in our costs. During 2015, wire rod prices declined throughout most of the year due to reductions in the cost of scrap for wire rod producers which favorably impacted our margins after the higher cost inventory had been consumed. During 2014 and 2013, wire rod prices fluctuated within a narrower range, and inflation did not have a material impact on our sales or earnings. Our ability to fully recover increases in wire rod prices over this period was mitigated by competitive pricing pressures resulting from the reduced level of activity in our construction end-markets. The timing and magnitude of any future increases in the prices for wire rod and the impact on selling prices for our products is uncertain at this time.

Off-Balance Sheet Arrangements

We do not have any material transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons, as defined by Item 303(a)(4) of Regulation S-K of the SEC, that have or are reasonably likely to have a material current or future impact on our financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses.

Contractual Obligations

Our contractual obligations and commitments at October 3, 2015 are as follows:

Payments Due by Period

(In thousands)

Contractual obligations:	Total	Less Than 1 Year	1 - 3 Years	3 – 5 Years	More Than 5 Years
Raw material purchase commitments[1]	$39,437	$39,437	$-	$-	$-
Supplemental employee retirement plan obligations	18,223	290	648	560	16,725
Pension benefit obligations	6,463	217	428	428	5,390
Operating leases	2,701	1,285	1,292	124	-
Trade letters of credit	1,629	1,629	-	-	-
Commitment fee on unused portion of credit facility	1,406	301	602	503	-
Other unconditional purchase obligations[2]	1,182	1,182	-	-	-
Total	$71,041	$44,341	$2,970	$1,615	$22,115

[1]Non-cancelable purchase commitments for raw materials.

[2]Contractual commitments for capital expenditures.

Outlook

As we look ahead to 2016, we expect further improvement in our financial results driven by the favorable conditions in our construction end-markets and reduced unit conversion costs at our facilities. The outlook for private nonresidential construction, our primary demand driver, remains positive and we expect the ongoing recovery will result in higher shipment volumes and operating levels. The prospects for infrastructure construction are less clear pending the enactment of a new multi-year federal transportation funding authorization, although increased spending at the state and local level should serve to mitigate the impact of continued delays in arriving at a longer-term funding solution.

We continue to focus on the operational fundamentals of our business: closely managing and controlling our expenses; aligning our production schedules with demand in a proactive manner as there are changes in market conditions to minimize our cash operating costs; and pursuing further improvements in the productivity and effectiveness of all of our manufacturing, selling and administrative activities. We expect that our financial results will be favorably impacted by the realization of additional operating synergies associated with the ASW Acquisition and related reconfiguration of our PC strand operations. As market conditions improve, we also expect gradually increasing contributions from the substantial investments we have made in our facilities in the form of reduced operating costs and additional capacity to support future growth (see "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors"). In addition, we will continue to pursue further acquisitions in our existing businesses that expand our penetration of markets we currently serve or expand our geographic footprint.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our cash flows and earnings are subject to fluctuations resulting from changes in commodity prices, interest rates and foreign exchange rates. We manage our exposure to these market risks through internally established policies and procedures and, when deemed appropriate, through the use of derivative financial instruments. We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe that we can modify or adapt our hedging strategies as necessary.

Commodity Prices

We are subject to significant fluctuations in the cost and availability of our primary raw material, hot-rolled steel wire rod, which we purchase from both domestic and foreign suppliers. We negotiate quantities and pricing for both domestic and foreign wire rod purchases for varying periods (most recently monthly for domestic suppliers), depending upon market conditions, to manage our exposure to price fluctuations and to ensure adequate availability of material consistent with our requirements. We do not use derivative commodity instruments to hedge our exposure to changes in prices as such instruments are not currently available for wire rod. Our ability to acquire wire rod from foreign sources on favorable terms is impacted by fluctuations in foreign currency exchange rates, foreign taxes, duties, tariffs and other trade actions. Although changes in wire rod costs and our selling prices may be correlated over extended periods of time, depending upon market conditions and competitive dynamics, there may be periods during which we are unable to fully recover increased wire rod costs through higher selling prices, which would reduce our gross profit and cash flow from operations. Additionally, should wire rod costs decline, our financial results may be negatively impacted if the selling prices for our products decrease to an even greater degree and to the extent that we are consuming higher cost material from inventory. Based on our 2015 shipments and average wire rod cost reflected in cost of sales, a 10% increase in the price of steel wire rod would have resulted in a $27.3 million decrease in our annual pre-tax earnings (assuming there was not a corresponding change in our selling prices).

Interest Rates

Although we were debt-free as of October 3, 2015, future borrowings under our revolving credit facility are subject to a variable rate of interest and are sensitive to changes in interest rates.

Foreign Exchange Exposure

We have not typically hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars, as such transactions have not been material historically. We will occasionally hedge firm commitments for certain equipment purchases that are denominated in foreign currencies. The decision to hedge any such transactions is made by us on a case-by-case basis. There were no forward contracts outstanding as of October 3, 2015. During 2015, a 10% increase or decrease in the value of the U.S. dollar relative to foreign currencies to which we are typically exposed would not have had a material impact on our financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data.

(a) Financial Statements

Consolidated Statements of Operations for the years ended October 3, 2015, September 27, 2014 and September 28, 2013	23
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(b) Supplementary Data

Selected quarterly financial data for 2015 and 2014 is as follows:

Financial Information by Quarter (Unaudited)

(In thousands, except for per share and price data)

	Quarter Ended			
	December 27	**March 28**	**June 27**	**October 3**
2015				
Operating results:				
Net sales	$110,628	$101,767	$117,016	$118,093
Gross profit	12,043	8,702	15,694	21,894
Net earnings	4,150	2,544	5,392	9,624
Net earnings per share amounts:				
Basic	0.23	0.14	0.29	0.52
Diluted	0.22	0.14	0.29	0.51

	Quarter Ended			
	December 28	**March 29**	**June 28**	**September 27**
2014				
Operating results:				
Net sales	$87,218	$91,436	$113,227	$117,097
Gross profit	9,055	11,606	14,263	13,849
Net earnings	2,747	3,522	5,797	4,575
Net earnings per share amounts:				
Basic	0.15	0.19	0.32	0.25
Diluted	0.15	0.19	0.31	0.24

INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for per share amounts)

	Year Ended		
	October 3, 2015	**September 27, 2014**	**September 28, 2013**
Net sales	$447,504	$408,978	$363,896
Cost of sales	389,171	360,205	324,663
Gross profit	58,333	48,773	39,233
Selling, general and administrative expense	25,824	23,371	20,682
Restructuring charges, net	349	1,247	-
Acquisition costs	-	612	-
Other expense (income), net	(1,113)	(1,907)	333
Interest expense	320	252	235
Interest income	(11)	(10)	(14)
Earnings before income taxes	32,964	25,208	17,997
Income taxes	11,254	8,567	6,262
Net earnings	$21,710	$16,641	$11,735
Net earnings per share:			
Basic	$1.18	$0.91	$0.65
Diluted	1.15	0.89	0.64
Cash dividends declared	0.12	0.12	0.37
Weighted average shares outstanding:			
Basic	18,418	18,257	17,948
Diluted	18,803	18,665	18,353

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended		
	October 3, 2015	**September 27, 2014**	**September 28, 2013**
Net earnings	$21,710	$ 16,641	$ 11,735
Other comprehensive income (loss):			
Adjustment to defined benefit plan liability, net of income taxes of $218, $140 and ($539)	(356)	(228)	879
Comprehensive income	$21,354	$ 16,413	$ 12,614

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except for per share amounts)

	October 3, 2015	**September 27, 2014**
Assets:		
Current assets:		
Cash and cash equivalents	$33,258	$ 3,050
Accounts receivable, net	46,782	51,211
Inventories	66,009	81,899
Other current assets	5,309	6,433
Total current assets	151,358	142,593
Property, plant and equipment, net	84,178	90,386
Intangibles, net	10,220	9,816
Goodwill	6,965	6,965
Other assets	7,518	7,035
Total assets	$260,239	$ 256,795
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	$32,182	$ 52,811
Accrued expenses	13,644	10,375
Total current liabilities	45,826	63,186
Other liabilities	14,198	14,726
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value		
Authorized shares: 1,000		
None issued	-	-
Common stock, $1 stated value		
Autho		