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DELTA REPORT

10-Q

IIIN - INSTEEL INDUSTRIES INC

10-Q - DECEMBER 30, 2023 COMPARED TO 10-Q - JULY 01, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	870
CHANGES	141
DELETIONS	613
ADDITIONS	116

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended July 1, 2023.

For the quarterly period ended December 30, 2023.

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

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 incorporation or organization)	(I.R.S. Employer Identification No.)
1373 Boggs Drive, Mount Airy, North Carolina	**27030**
(Address of principal executive offices)	(Zip code)

(336) 786-2141

(Registrant's telephone number, including area code)

Not Applicable

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (No Par Value)	IIIN	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). **Yes** ☒ **No** ☐☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ **No** ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common Stock (No Par Value)	**19,432,599 19,448,318**
Title of Class	Number of Shares Outstanding as of July 20, 2023 January 17, 2024

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

INSTEEL INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		**Nine Months Ended**		Three Months Ended	
	July 1, 2023	**July 2, 2022**	**July 1, 2023**	**July 2, 2022**	December 30, 2023	December 31, 2022
Net sales	$ 165,714	$ 227,173	$ 491,664	$ 618,841	$ 121,725	$ 166,899
Cost of sales	145,347	169,091	440,249	461,326	115,455	149,113
Gross profit	20,367	58,082	51,415	157,515	6,270	17,786
Selling, general and administrative expense	7,924	8,235	22,556	27,718	6,367	7,126
Restructuring recoveries, net	-	-	-	(318)		
Other (income) expense, net	(24)	1	(3,423)	(15)		
Other income, net					(22)	(3,342)
Interest expense	20	23	67	68	29	24
Interest income	(1,097)	(86)	(2,284)	(110)	(1,659)	(440)
Earnings before income taxes	13,544	49,909	34,499	130,172	1,555	14,418
Income taxes	2,979	11,350	7,710	29,467	423	3,295
Net earnings	$ 10,565	$ 38,559	$ 26,789	$ 100,705	$ 1,132	$ 11,123
Net earnings per share:						
Basic	$ 0.54	$ 1.97	$ 1.37	$ 5.16	$ 0.06	$ 0.57
Diluted	0.54	1.96	1.37	5.13	0.06	0.57
Weighted average shares outstanding:						
Basic	19,488	19,537	19,506	19,503	19,497	19,525
Diluted	19,548	19,657	19,565	19,629	19,573	19,584
Cash dividends declared per share	$ 0.03	$ 0.03	$ 2.09	$ 2.09	$ 2.53	$ 2.03
Comprehensive income	$ 10,565	$ 38,559	$ 26,789	$ 100,705	$ 1,132	$ 11,123

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited)		(Unaudited)	
	July 1,	**October 1,**	December 30,	September 30,

	2023	2022	2023	2023
Assets				
Current assets:				
Cash and cash equivalents	$ 91,740	$ 48,316	$ 85,615	$ 125,670
Accounts receivable, net	66,363	81,646	43,354	63,424
Inventories	133,126	197,654	94,142	103,306
Other current assets	6,406	7,716	8,706	6,453
Total current assets	297,635	335,332	231,817	298,853
Property, plant and equipment, net	118,788	108,156	129,300	120,014
Intangibles, net	6,278	6,847	5,903	6,090
Goodwill	9,745	9,745	9,745	9,745
Other assets	12,936	11,665	13,803	12,811
Total assets	$ 445,382	$ 471,745	$ 390,568	$ 447,513
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable	$ 38,075	$ 46,796	$ 23,852	$ 34,346
Accrued expenses	12,984	15,800	9,585	11,809
Total current liabilities	51,059	62,596	33,437	46,155
Other liabilities	19,257	19,405	23,536	19,853
Commitments and contingencies				
Shareholders' equity:				
Common stock	19,433	19,478	19,448	19,454
Additional paid-in capital	83,150	81,997	84,425	83,832
Retained earnings	273,460	289,246	230,005	278,502
Accumulated other comprehensive loss	(977)	(977)	(283)	(283)
Total shareholders' equity	375,066	389,744	333,595	381,505
Total liabilities and shareholders' equity	$ 445,382	$ 471,745	$ 390,568	$ 447,513

See accompanying notes to consolidated financial statements.

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INSTEEL INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended		Three Months Ended	
	July 1, 2023	July 2, 2022	December 30, 2023	December 31, 2022
Cash Flows From Operating Activities:				
Net earnings	$ 26,789	$ 100,705	$ 1,132	$ 11,123
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	9,835	10,977	3,709	3,350
Amortization of capitalized financing costs	45	49	13	16
Stock-based compensation expense	1,534	1,395	398	130
Deferred income taxes	(991)	624	3,348	(1,378)
Gain on sale and disposition of property, plant and equipment and assets held for sale	(3,321)	(595)		

Gain from life insurance proceeds	-	(364)		
Gain on sale and disposition of property, plant and equipment			-	(3,324)
Increase in cash surrender value of life insurance policies over premiums paid	(854)	-	(675)	(363)
Net changes in assets and liabilities:				
Accounts receivable, net	15,283	(13,258)	20,070	12,857
Inventories	64,528	(113,398)	9,164	26,469
Accounts payable and accrued expenses	(12,745)	27,197	(12,921)	(21,520)
Other changes	3,223	1,782	(2,404)	5,646
Total adjustments	76,537	(85,591)	20,702	21,883
Net cash provided by operating activities	103,326	15,114	21,834	33,006
Cash Flows From Investing Activities:				
Capital expenditures	(26,604)	(12,251)	(12,268)	(8,200)
(Increase) decrease in cash surrender value of life insurance policies	(402)	1,012		
Proceeds from sale of assets held for sale	-	6,934		
Increase in cash surrender value of life insurance policies			(122)	(81)
Proceeds from sale of property, plant and equipment	9,924	-	3	9,920
Proceeds from life insurance claims	-	1,456		
Proceeds from surrender of life insurance policies	358	110	5	-
Net cash used for investing activities	(16,724)	(2,739)		
Net cash (used for) provided by investing activities			(12,382)	1,639
Cash Flows From Financing Activities:				
Proceeds from long-term debt	255	220	67	67
Principal payments on long-term debt	(255)	(220)	(67)	(67)
Cash dividends paid	(40,668)	(40,578)	(49,191)	(39,501)
Payment of employee tax withholdings related to net share transactions	(196)	(286)	(20)	-
Cash received from exercise of stock options	191	1,650	243	94
Financing costs	(177)	-		
Repurchases of common stock	(2,328)	-	(539)	(916)
Net cash used for financing activities	(43,178)	(39,214)	(49,507)	(40,323)
Net increase (decrease) in cash and cash equivalents	43,424	(26,839)		
Net decrease in cash and cash equivalents			(40,055)	(5,678)
Cash and cash equivalents at beginning of period	48,316	89,884	125,670	48,316
Cash and cash equivalents at end of period	$ 91,740	$ 63,045	$ 85,615	$ 42,638
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Income taxes, net	$ 5,466	$ 29,998	$ 8	$ 187
Non-cash investing and financing activities:				
Purchases of property, plant and equipment in accounts payable	843	1,286	1,846	1,520
Restricted stock units and stock options surrendered for withholding taxes payable	196	286	20	-

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total Shareholders'	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	Loss	Equity	Shares	Amount	Capital	Earnings	Loss	Equity
For the three and nine months ended July 1, 2023												
For the three months ended December 30, 2023							For the three months ended December 30, 2023					
Balance at September 30, 2023							19,454	$ 19,454	$ 83,832	$ 278,502	$ (283)	$ 381,505
Net earnings										1,132		1,132
Stock options exercised, net							13	13	297			310
Compensation expense associated with stock-based plans									398			398
Repurchases of Common Stock							(19)	(19)	(82)	(438)		(539
Restricted stock units and stock options surrendered for withholding taxes payable									(20)			(20
Cash dividends declared										(49,191)		(49,191
Balance at December 30, 2023							19,448	$ 19,448	$ 84,425	$ 230,005	$ (283)	$ 333,595
For the three months ended December 31, 2022							***For the three months ended December 31, 2022***					
Balance at October 1, 2022	19,478	$ 19,478	$ 81,997	$ 289,246	$ (977)	$ 389,744	19,478	$ 19,478	$ 81,997	$ 289,246	$ (977)	$ 389,744
Net earnings				11,123		11,123				11,123		11,123
Stock options exercised, net	5	5	89			94	5	5	89			94

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Compensation expense associated with stock-based plans			130			130			130			130
Repurchases of Common Stock	(32)	(32)	(134)	(750)		(916)	(32)	(32)	(134)	(750)		(916
Cash dividends declared				(39,501)		(39,501)				(39,501)		(39,501
Balance at December 31, 2022	19,451	19,451	82,082	260,118	(977)	360,674	19,451	$ 19,451	$ 82,082	$ 260,118	$ (977)	$ 360,674
Net earnings				5,101		5,101						
Vesting of restricted stock units	24	24	(24)			-						
Compensation expense associated with stock-based plans			983			983						
Repurchases of Common Stock	(34)	(34)	(146)	(829)		(1,009)						
Restricted stock units and stock options surrendered for withholding taxes payable			(187)			(187)						
Cash dividends declared				(584)		(584)						
Balance at April 1, 2023	19,441	19,441	82,708	263,806	(977)	364,978						
Net earnings				10,565		10,565						
Stock options exercised, net	6	6	91			97						
Compensation expense associated with stock-based plans			421			421						
Repurchases of Common Stock	(14)	(14)	(61)	(328)		(403)						
Restricted stock units and stock options surrendered for withholding taxes payable			(9)			(9)						
Cash dividends declared				(583)		(583)						
Balance at July 1, 2023	19,433	$ 19,433	$ 83,150	$ 273,460	$ (977)	$ 375,066						

For the three and nine months ended July 2, 2022						
Balance at October 2, 2021	19,408	$ 19,408	$ 78,688	$ 206,384	$ (2,442)	$ 302,038
Net earnings				23,129		23,129
Stock options exercised, net	6	6	40			46
Compensation expense associated with stock-based plans			272			272
Restricted stock units and stock options surrendered for withholding taxes payable			(55)			(55)
Cash dividends declared				(39,410)		(39,410)
Balance at January 1, 2022	19,414	19,414	78,945	190,103	(2,442)	286,020
Net earnings				39,017		39,017
Vesting of restricted stock units	25	25	(25)			-
Compensation expense associated with stock-based plans			830			830
Restricted stock units and stock options surrendered for withholding taxes payable			(137)			(137)
Cash dividends declared				(583)		(583)
Balance at April 2, 2022	19,439	19,439	79,613	228,537	(2,442)	325,147
Net earnings				38,559		38,559
Stock options exercised, net	67	67	1,537			1,604
Compensation expense associated with stock-based plans			293			293

Restricted stock units and stock options surrendered for withholding taxes payable			(94)			(94)
Cash dividends declared				(585)		(585)
Balance at July 2, 2022	19,506	$ 19,506	$ 81,349	$ 266,511	$ (2,442)	$ 364,924

See accompanying notes to consolidated financial statements

INSTEEL INDUSTRIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") on a basis consistent with that used in the Annual Report on Form 10-K for the year ended October 1, 2022 September 30, 2023 ("2022 2023 Form 10-K") filed by us with the Securities and Exchange Commission. These statements include all normal recurring adjustments necessary to present fairly the consolidated balance sheets and the statements of operations and comprehensive income, cash flows and shareholders' equity for the periods indicated. The October 1, 2022 September 30, 2023 consolidated balance sheet was derived from audited consolidated financial statements but does not include all the disclosures required by GAAP. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2022 2023 Form 10-K. The results of operations for the periods indicated are not necessarily indicative of the results that may be expected for the full fiscal year or any future periods.

(2) Recent Accounting Pronouncements

There were not In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures". ASU No. 2023-07 requires disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), a description of other segment items by reportable segment and any recently adopted additional measures of a segment's profit or newly issued accounting pronouncements loss used by the CODM when deciding how to allocate resources. The ASU requires all annual disclosures currently required by Topic 280 to be included in interim periods and is applicable to entities with a single reportable segment. ASU No. 2023-07 will be effective for us in fiscal 2025 for annual reporting and in the nine-month period ended July 1, 2023, that have had, or first quarter of fiscal 2026 for interim reporting. Retrospective application is required for all prior periods presented in the financial statements. We are expected to have, a material currently evaluating the impact of the ASU on our disclosures within the consolidated financial statements and disclosures. statements.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures". ASU No. 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income tax paid. ASU No. 2023-09 will become effective for us in fiscal 2026. We are currently evaluating the impact of the ASU on our income tax disclosures within the consolidated financial statements.

(3) Revenue Recognition

We recognize revenues when performance obligations under the terms of a contract with our customers are satisfied, which generally occurs when products are shipped and control is transferred. We enter into contracts that pertain to products, which are accounted for as separate performance obligations and typically one year or less in duration. We do not exercise significant judgment in determining the timing for the satisfaction of performance obligations or the transaction price. Revenue is measured as the amount of consideration expected to be received in exchange for our products. We present revenue net of amounts collected from customers for sales tax.

Variable consideration that may affect the total transaction price, including contractual discounts, rebates, returns and credits, are included in net sales. Estimates for variable consideration are based on historical experience, anticipated performance and management's judgment and are updated as of each reporting date. Shipping and related expenses associated with outbound freight are accounted for as fulfillment costs and included in cost of sales. We do not have significant financing components. Contract costs are not significant and are recognized as incurred.

Our net sales by product line are as follows:

	Three Months Ended		Nine Months Ended		Three Months Ended	
(In thousands)	**July 1, 2023**	**July 2, 2022**	**July 1, 2023**	**July 2, 2022**	December 30, 2023	December 31, 2022
Welded wire reinforcement	$ 96,698	$ 131,764	$ 284,044	$ 378,808	$ 68,802	$ 95,968
Prestressed concrete strand	69,016	95,409	207,620	240,033	52,923	70,931
Total	$ 165,714	$ 227,173	$ 491,664	$ 618,841	$ 121,725	$ 166,899

Contract assets primarily relate to our rights to consideration for products that are delivered but not billed as of the reporting date and are reclassified to receivables when the customer is invoiced. Contract liabilities primarily relate to performance obligations that are to be satisfied in the future and arise when we collect from the customer in advance of shipments. Contract assets and liabilities were not material as of July 1, 2023 December 30, 2023, and October 1, 2022 September 30, 2023.

Accounts receivable includes amounts billed and currently due from customers stated at their net estimated realizable value. Customer payment terms are generally 30 days. We maintain an allowance for doubtful accounts credit losses to provide for the estimated receivables that will not be collected, which is based upon our assessment of customer creditworthiness, historical payment experience and the age of outstanding receivables. Past-due trade receivable balances are written off when our collection efforts have been unsuccessful.

(4) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level fair value hierarchy that encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

As of July 1, 2023 December 30, 2023, and October 1, 2022 September 30, 2023, we held financial assets that are required to be measured at fair value on a recurring basis, which are summarized below:

(In thousands)	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Observable Inputs (Level 2)**
As of July 1, 2023:			
Current assets:			
Cash equivalents	$ 90,424	$ 90,424	$
Other assets:			
Cash surrender value of life insurance policies	10,835	-	
Total	$ 101,259	$ 90,424	$
As of October 1, 2022:			
Current assets:			

Cash equivalents	$ 48,045	$ 48,045	$
Other assets:			
Cash surrender value of life insurance policies	9,938	-	
Total	$ 57,983	$ 48,045	$

(In thousands)	Total	Quoted Prices in Active Markets (Level 1)	Observab Inputs (Level 2
As of December 30, 2023:			
Current assets:			
Cash equivalents	$ 83,291	$ 83,291	$
Other assets:			
Cash surrender value of life insurance policies	11,378	-	
Total	$ 94,669	$ 83,291	$
As of September 30, 2023:			
Current assets:			
Cash equivalents	$ 125,805	$ 125,805	$
Other assets:			
Cash surrender value of life insurance policies	10,586	-	
Total	$ 136,391	$ 125,805	$

Cash equivalents, which include all highly liquid investments with original maturities of three months or less, are classified as Level 1 of the fair value hierarchy. The carrying amount of our cash equivalents, which consist of investments in money market funds, approximates fair value due to their short maturities. Cash surrender value of life insurance policies are classified as Level 2. The fair value of the life insurance policies was determined by the underwriting insurance company's valuation models and represents the guaranteed value we would receive upon surrender of these policies as of the reporting date.

As of July 1, 2023 December 30, 2023, and October 1, 2022 September 30, 2023, we had no nonfinancial assets that were required to be measured at fair value on a nonrecurring basis. The carrying amounts of accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term maturities of these financial instruments.

(5) Intangible Assets

The primary components of our intangible assets and the related accumulated amortization are as follows:

(In thousands)	Weighted-Average Useful Life (Years)	Gross	Accumulated Amortization	Net Book Valu
As of July 1, 2023:				
Customer relationships	17.1	$ 9,870	$ (4,617)	$ 5,
Developed technology and know-how	20.0	1,800	(796)	1,
Non-competition agreements	5.0	400	(379)	
		$ 12,070	$ (5,792)	$ 6,
As of October 1, 2022:				
Customer relationships	17.1	$ 9,870	$ (4,130)	$ 5,
Developed technology and know-how	20.0	1,800	(729)	1,
Non-competition agreements	5.0	400	(364)	
		$ 12,070	$ (5,223)	$ 6,

(In thousands)	Weighted-Average Useful Life (Years)	Gross		Accumulated Amortization		Net Book Val
As of December 30, 2023:						
Customer relationships	17.1	$	9,870	$	(4,941)	$ 4
Developed technology and know-how	20.0		1,800		(841)	
Non-competition agreements	5.0		60		(45)	
		$	11,730	$	(5,827)	$ 5
As of September 30, 2023:						
Customer relationships	17.1	$	9,870	$	(4,779)	$ 5
Developed technology and know-how	20.0		1,800		(818)	
Non-competition agreements	5.0		400		(383)	
		$	12,070	$	(5,980)	$ 6

Amortization expense for intangibles was $187,000 and $205,000 $194,000 for the three-month periods ended July 1, 2023 December 30, 2023, and July 2, 2022, respectively, and $569,000 and $617,000 for the nine-month periods ended July 1, 2023 and July 2, 2022 December 31, 2022, respectively. Amortization expense for the next five years is $187,000 in 2023, $750,000 $562,000 in 2024, $743,000 in 2025, $752,000 in 2026, $480,000 in 2027, $453,000 in 2028 and $3.4 million $2.9 million thereafter.

(6) Stock-Based Compensation

Under our equity incentive plan, employees and directors may be granted stock options, restricted stock, restricted stock units and performance awards. Effective February 28, 2020 February 11, 2020, our shareholders approved an amendment to the 2015 Equity Incentive Plan of Insteel Industries Inc. (the "2015 Plan"), which authorizes up to an additional 750,000 shares of our common stock for future grants under the plan and expires on February 17, 2025. As of July 1, 2023 December 30, 2023, there were 500,000 439,000 shares of our common stock available for future grants under the 2015 Plan, which is our only active equity incentive plan.

Stock option awards**.** Under our equity incentive plan, employees and directors may be granted options to purchase shares of common stock at the fair market value on the date of the grant. Options granted under these plans generally vest over three years and expire ten years from the date of the grant. Compensation expense associated with stock options was $160,000 $153,000 and $115,000 $36,000 for the three-month periods ended July 1, 2023 December 30, 2023, and July 2, 2022, respectively, and $635,000 and $594,000for the nine-month periods ended July 1, 2023 and July 2, 2022, December 31, 2022 respectively. As of July 1, 2023 December 30, 2023, there was $503,000 $592,000 of unrecognized compensation cost related to unvested options which is expected to be recognized over a weighted average period of 1.94years. 1.94 years.

The following table summarizes stock option activity:

	Options Outstanding *(in thousands)*		**Weighted Average Exercise Price**	**Contractual Term - Weighted Average** *(in years)*		**Aggregate Intrinsic Value** *(in thousands)*
Outstanding at October 1, 2022	365	$	30.00			
Granted	49		30.27			
Forfeited	(19)		33.22			
Exercised	(12)		19.64		$	135
Outstanding at July 1, 2023	383		30.20	7.09		1,400
Vested and anticipated to vest in the future at July 1, 2023	376		30.15	7.06		1,396
Exercisable at July 1, 2023	224		28.71	5.90		1,159

	Options	Weighted	Contractual Term - Weighted	Aggregate Intrinsic

	Outstanding (in thousands)		Average Exercise Price	Average (in years)		Value (in thousands)
Outstanding at September 30, 2023	411	$	30.68			
Granted	-		-			
Forfeited	(8)		41.86			
Exercised	(34)		30.84		$	171
Outstanding at December 30, 2023	369		30.42	7.04		3,073
Vested and anticipated to vest in the future at December 30, 2023	362		30.39	7.01		3,030
Exercisable at December 30, 2023	216		28.98	5.75		2,148

Stock option exercises include “net exercises” for which the optionee received shares of common stock equal to the intrinsic value of the options (fair market value of common stock on the date of exercise less exercise price) reduced by any applicable withholding taxes.

Restricted stock units. Restricted stock units (“RSUs”) granted under our equity incentive plan are valued based upon the fair market value on the date of the grant and provide for a dividend equivalent payment which is included in compensation expense. The vesting period for RSUs is generally one year from the date of the grant for RSUs granted to directors and three years from the date of the grant for RSUs granted to employees. RSUs do not have voting rights. Compensation expense associated with RSUs was $261,000 $245,000 and $178,000 $94,000 for the three-month periods ended July 1, 2023 December 30, 2023, and July 2, 2022, respectively, and $899,000 and $801,000 for the nine-month periods ended July 1, 2023 and July 2, 2022 December 31, 2022, respectively.

As of July 1, 2023 December 30, 2023, there was $980,000 $887,000 of unrecognized compensation cost related to unvested RSUs which is expected to be recognized over a weighted average period of 1.45 1.65 years.

The following table summarizes RSU activity:

(Unit amounts in thousands)	**Restricted Stock Units Outstanding**		**Weigh Avera Grant Fair V**
Balance, October 1, 2022	120	$	
Granted	36		
Forfeited	(10)		
Released	(31)		
Balance, July 1, 2023	115		

(Unit amounts in thousands)	Restricted Stock Units Outstanding		Weigh Avera Grant Fair V
Balance, September 30, 2023	105	$	
Granted	-		
Balance, December 30, 2023	105		

(7) Income Taxes

Effective income tax rate. Our effective income tax rate was 22.3% 27.2% for the nine-month three-month period ended July 1, 2023 December 30, 2023, compared with 22.6% 22.9% for the nine-month three-month period ended July 2, 2022 December 31, 2022. The effective income tax rates for both periods were based upon the estimated rate applicable for the entire fiscal year adjusted to reflect any significant or discrete items related specifically to interim periods. The increase in the effective rate for the three-month period ended December 30, 2023 is primarily attributed to permanent book versus tax differences for stock-based compensation which were treated as discrete in the current quarter.

Deferred income taxes. As of July 1, 2023 December 30, 2023, and October 1, 2022 September 30, 2023, we recorded a deferred tax liability (net of valuation allowance) of $6.1 million $10.9 million and $7.1 million $7.5 million, respectively, in other liabilities on our consolidated balance sheets. We have $7.9 million $31,000 of state net operating loss carryforwards ("NOLs") that begin to expire in 2031, but principally expire between 2031 and 2038. 2031.

The realization of our deferred tax assets is entirely dependent upon our ability to generate future taxable income in applicable jurisdictions. GAAP requires that we periodically assess the need to establish a reserve against our deferred tax assets to the extent we no longer believe it is more likely than not that they will be fully realized. As of July 1, 2023 December 30, 2023, and October 1, 2022 September 30, 2023, we recorded a valuation allowance of $32,000 $149,000 and $3,000, respectively, pertaining to various state NOLs deferred tax assets that were not expected to be utilized. The valuation allowance is subject to periodic review and adjustment based on changes in facts and circumstances and would be reduced should we utilize the state NOLs against which an allowance had previously been provided or determine that such utilization was more likely than not. circumstances.

Uncertainty in income taxes. We establish contingency reserves for material, known tax exposures based on our assessment of the estimated liability that would be incurred in connection with the settlement of such matters. As of July 1, 2023 December 30, 2023, we had no material, known tax exposures that required the establishment of contingency reserves for uncertain tax positions.

We file U.S. federal, state and local income tax returns in various jurisdictions. Federal and various state tax returns filed subsequent to 2017 2018 remain subject to examination.

(8) Employee Benefit Plans

Supplemental retirement benefit plan. We have Supplemental Retirement Benefit Agreements (each, a "SRBA") with certain of our employees (each, a "Participant"). Under the SRBAs, if the Participant remains in continuous service with us for a period of at least 30 years, we will pay the Participant a supplemental retirement benefit for the 15-year period following the Participant's retirement equal to 50% of the Participant's highest average annual base salary for five consecutive years in the 10-year period preceding the Participant's retirement. If the Participant retires prior to the later of age 65 or the completion of 30 years of continuous service with us but has completed at least 10 years of continuous service, the amount of the Participant's supplemental retirement benefit will be reduced by 1/360th for each month short of 30 years that the Participant was employed by us.

Net periodic pension cost for the SRBAs includes the following components:

	Three Months Ended		**Nine Months Ended**		Three Months Ended	
(In thousands)	**July 1, 2023**	**July 2, 2022**	**July 1, 2023**	**July 2, 2022**	December 30, 2023	December 31, 2022
Interest cost	$ 130	$ 87	$ 390	$ 261	$ 147	$ 130
Service cost	83	100	249	300	63	83
Recognized net actuarial loss	3	69	9	207	-	3
Net periodic pension cost	$ 216	$ 256	$ 648	$ 768	$ 210	$ 216

(9) Long-Term Debt

Revolving 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 March 2023, we amended our credit agreement to extend the maturity date of the Credit Facility from May 15, 2024, to March 15, 2028, and replaced the London Inter-Bank Offered Rate with the Secured Overnight Financing Rate ("SOFR"). The Credit Facility provides for an accordion feature whereby its size may be increased by up to $50.0 million, subject to our lender's approval. 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 July 1, 2023 December 30, 2023, no borrowings were outstanding on the Credit Facility, $98.5 million $96.7 million of borrowing capacity was available and outstanding letters of credit totaled $1.5 million.

Interest rates on the Credit Facility are based upon (1) an index rate that is established at the highest of the prime rate, 0.50% plus the federal funds rate or the SOFR rate plus 1.00% or (2) at our election, a SOFR rate including a credit adjustment of 0.10%, plus, in either case, an applicable interest rate margin. The applicable interest rate margins are adjusted on a quarterly basis based upon the amount of excess availability on the Credit Facility within the range of 0.25% to 0.50% for index rate loans and 1.25% to 1.50% for SOFR-based loans. In addition, the applicable interest rate margins would be increased by 2.00% upon the occurrence of certain events of default provided for under the terms of the Credit Facility. Based on our excess availability as of July 1, 2023 December 30, 2023, the applicable interest rate margins on the Credit Facility were 0.25% for index rate loans and 1.25% for SOFR-based loans.

Our ability to borrow available amounts under the Credit Facility will be restricted or eliminated in the event of certain covenant breaches, events of default or if we are unable to make certain representations and warranties provided for under the terms of the Credit Facility. We are required to maintain a fixed charge coverage ratio of not less than 1.0 at the end of each fiscal quarter for the twelve-month period then ended when the amount of liquidity on the Credit Facility is less than $10.0 million. In addition, the terms of the Credit Facility restrict our ability to, among other things: engage in certain business combinations or divestitures; make investments in or loans to third parties, unless certain conditions are met with respect to such investments or loans; pay cash dividends or repurchase shares of our stock subject to certain minimum borrowing availability requirements; incur or assume indebtedness; issue securities; enter into certain transactions with our affiliates; or permit liens to encumber our property and assets. The terms of the Credit Facility also provide that an event of default will occur upon the occurrence of, among other things: defaults or breaches under the loan documents, subject in certain cases to cure periods; defaults or breaches by us or any of our subsidiaries under any agreement resulting in the acceleration of amounts above certain thresholds or payment defaults above certain thresholds; certain events of bankruptcy or insolvency; certain entries of judgment against us or any of our subsidiaries, which are not covered by insurance; or a change of control. As of July 1, 2023 December 30, 2023, we were in compliance with all of the financial and negative covenants under the Credit Facility, and there have not been any events of default.

Amortization of capitalized financing costs associated with the Credit Facility was $13,000 and $16,000 for the three-month periods ended July 1, 2023 December 30, 2023, and July 2, 2022, respectively, and $45,000 and $49,000 for the nine-month periods ended July 1, 2023 and July 2, 2022 December 31, 2022, respectively.

(10) Earnings Per Share

The computation of basic and diluted earnings per share attributable to common shareholders is as follows:

(In thousands, except per share amounts)	**Three Months Ended July 1, 2023**	**Three Months Ended July 2, 2022**	**Nine Months Ended July 1, 2023**	**Nine Months Ended July 2, 2022**
Net earnings	$ 10,565	$ 38,559	$ 26,789	$ 100,705
Basic weighted average shares outstanding	19,488	19,537	19,506	19,503
Dilutive effect of stock-based compensation	60	120	59	126
Diluted weighted average shares outstanding	19,548	19,657	19,565	19,629
Net earnings per share:				
Basic	$ 0.54	$ 1.97	$ 1.37	$ 5.16
Diluted	$ 0.54	$ 1.96	$ 1.37	$ 5.13

(In thousands, except per share amounts)	Three Months Ended December 30, 2023	Three Months Ended December 31, 2022
Net earnings	$ 1,132	$ 11,1
Basic weighted average shares outstanding	19,497	19,5
Dilutive effect of stock-based compensation	76	5
Diluted weighted average shares outstanding	19,573	19,5
Net earnings per share:		
Basic	$ 0.06	$ 0.
Diluted	$ 0.06	$ 0.

Options and RSUs that were antidilutive and not included in the dilutive earnings per share calculation amounted to 65,000 39,000 and 14,000 94,000 shares for the three-month periods ended July 1, 2023 December 30, 2023, and July 2, 2022, respectively, and 76,000 and 46,000 shares for the nine-month periods ended July 1, 2023, and July 2, 2022 December 31, 2022, respectively.

(11) Share Repurchases

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 (the "Authorization"). Under the Authorization, 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 common stock, and the program may be commenced or suspended at any time at our discretion without prior notice. The Authorization continues in effect until terminated by the Board of Directors. The Company repurchased $403,000 $539,000 or 14,239 19,076 shares and $2.3 million $916,000 or 80,352 31,654 shares of its common stock during the three- and nine-month three-month periods ended July 1, 2023 December 30, 2023, and December 31, 2022, respectively. There wereno share repurchases during the three- and nine-month periods ended July 2, 2022. As of July 1, 2023 December 30, 2023, there was $21.2 million $20.7 million remaining available for future share repurchases under this Authorization.

(12) Other Financial Data

Balance sheet information:

(In thousands)	**July 1, 2023**	**October 1, 2022**	December 30, 2023	September 30, 2023
Accounts receivable, net:				
Accounts receivable	$ 66,688	$ 82,043	$ 43,659	$ 63,735
Less allowance for doubtful accounts	(325)	(397)		
Less allowance for credit losses			(305)	(311)
Total	$ 66,363	$ 81,646	$ 43,354	$ 63,424
Inventories:				
Raw materials	$ 51,344	$ 108,894	$ 38,123	$ 39,341
Work in process	6,379	8,817	5,264	5,852
Finished goods	75,403	79,943	50,755	58,113
Total	$ 133,126	$ 197,654	$ 94,142	$ 103,306
Other current assets:				
Prepaid insurance	$ 3,945	$ 4,563	$ 3,510	$ 4,043
Income tax receivable			2,748	-
Other	2,461	3,153	2,448	2,410
Total	$ 6,406	$ 7,716	$ 8,706	$ 6,453
Other assets:				
Cash surrender value of life insurance policies	$ 10,835	$ 9,938	$ 11,378	$ 10,586
Right-of-use asset	1,804	1,565	2,152	1,939
Capitalized financing costs, net	188	41	163	175
Other	109	121	110	111
Total	$ 12,936	$ 11,665	$ 13,803	$ 12,811
Property, plant and equipment, net:				
Land and land improvements	$ 15,107	$ 14,947	$ 15,151	$ 15,107
Buildings	55,578	55,044	56,697	56,653

Machinery and equipment	187,346	191,790	214,999	198,528
Construction in progress	28,333	11,745	13,065	18,019
	286,364	273,526	299,912	288,307
Less accumulated depreciation	(167,576)	(165,370)	(170,612)	(168,293)
Total	$ 118,788	$ 108,156	$ 129,300	$ 120,014
Accrued expenses:				
Customer rebates			$ 2,906	$ 2,132
Salaries, wages and related expenses	$ 5,174	$ 8,128	2,279	5,082
Property taxes			1,367	1,912
Sales allowance reserves			1,270	745
Operating lease liability			1,055	999
State sales and use taxes			158	268
Income taxes	2,154	-	-	187
Customer rebates	1,815	2,760		
Property taxes	1,307	1,782		
Operating lease liability	935	997		
Sales allowance reserves	927	1,013		
State sales and use taxes	269	595		
Other	403	525	550	484
Total	$ 12,984	$ 15,800	$ 9,585	$ 11,809
Other liabilities:				
Deferred compensation	$ 12,294	$ 11,747	$ 11,555	$ 11,374
Deferred income taxes	6,095	7,086	10,891	7,543
Operating lease liability	868	572	1,090	936
Total	$ 19,257	$ 19,405	$ 23,536	$ 19,853

(13) Business Segment Information

Our operations are entirely focused on the manufacture and marketing of steel wire reinforcing products for concrete construction applications. Our concrete reinforcing products consist of two product lines: prestressed concrete strand and welded wire reinforcement. Based on the criteria specified in Accounting Standards Codification Topic 280, *Segment Reporting*, we have one reportable segment.

(14) Contingencies

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 expect the ultimate outcome or cost to resolve these matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 under the caption “Outlook” below. When used in this report, the words “believes,” “anticipates,” “expects,” “estimates,” “appears,” “plans,” “intends,” “continue,” “outlook,” “may,” “should,” “could” and similar expressions are 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 numerous risks and uncertainties and involve certain assumptions. Actual results may differ materially from those expressed in forward-looking statements, and we can provide no assurances that such plans, intentions or expectations will be implemented or achieved. Many of these risks and uncertainties are discussed in detail and, where appropriate, updated in our filings with the U.S. Securities and Exchange Commission ("SEC"), in particular in our Annual Report on Form 10-K for the fiscal year ended October 1, 2022 September 30, 2023 (our "2022 "2023 Annual Report"). You should carefully review these risks and uncertainties.

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 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 business, future operations or financial performance; however, they include, but are not limited to, the following:

- the impact of COVID-19 on the economy, demand for our products and our operations, including the measures taken by governmental authorities to address it, which may precipitate or exacerbate other risks and/or uncertainties;
- general economic and competitive conditions in the markets in which we operate;
- changes in the spending levels 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;
- the impact of rising interest rates on the cost of financing for our customers;
- fluctuations in the cost and availability of our primary raw material, hot-rolled carbon steel wire rod, from domestic and foreign suppliers;
- competitive pricing pressures and our ability to raise selling prices in order to recover increases in raw material or operating 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 fluctuations in demand and 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 geopolitical or regulatory developments that significantly impact our business or operating costs;
- unanticipated plant outages, equipment failures or labor difficulties; and
- the "Risk Factors" discussed in our 2022 2023 Annual Report and in other filings made by us with the SEC.

Overview

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 and welded wire reinforcement, including ESM, concrete pipe reinforcement and standard welded wire reinforcement. Our products are sold primarily to manufacturers of concrete products that are used in nonresidential construction. We market our products through sales representatives who are our employees. We sell our products nationwide across the U.S. and, to a much lesser extent, into Canada, Mexico and Central and South America, delivering them primarily by truck, using common or contract carriers. Our business strategy is focused on: (1) achieving leadership positions in our markets; (2) operating as the lowest cost producer in our industry; and (3) pursuing growth opportunities within our core businesses that further our penetration of the markets we currently serve or expand our footprint.

Results of Operations

Statements of Operations – Selected Data

(Dollars in thousands)

	Three Months Ended			**Nine Months Ended**			Three Months Ended		
	July 1, 2023	**Change**	**July 2, 2022**	**July 1, 2023**	**Change**	**July 2, 2022**	December 30, 2023	Change	December 31, 2022
Net sales	$ 165,714	(27.1%)	$ 227,173	$ 491,664	(20.6%)	$ 618,841	$ 121,725	(27.1%)	$ 166,899
Gross profit	20,367	(64.9%)	58,082	51,415	(67.4%)	157,515	6,270	(64.7%)	17,786
Percentage of net sales	*12.3%*		*25.6%*	*10.5%*		*25.5%*	*5.2%*		*10.7%*
Selling, general and administrative expense	$ 7,924	(3.8%)	$ 8,235	$ 22,556	(18.6%)	$ 27,718	$ 6,367	(10.7%)	$ 7,126
Percentage of net sales	*4.8%*		*3.6%*	*4.6%*		*4.5%*	*5.2%*		*4.3%*
Other (income) expense, net	$ (24)	N/M	$ 1	$ (3,423)	N/M	$ (15)			
Other income, net							$ (22)	N/M	$ (3,342)
Interest income	(1,097)	N/M	(86)	(2,284)	N/M	(110)	(1,659)	N/M	(440)
Effective income tax rate	22.0%		22.7%	22.3%		22.6%	27.2%		22.9%
Net earnings	$ 10,565	(72.6%)	$ 38,559	$ 26,789	(73.4%)	$ 100,705	$ 1,132	(89.8%)	$ 11,123

"N/M" = not meaningful

Third First Quarter of Fiscal 2023 2024 Compared to Third First Quarter of Fiscal 2022 2023

Net Sales

Net sales for the third first quarter of 2023 2024 decreased 27.1% to $165.7 million $121.7 million from $227.2 million $166.9 million in the prior year quarter reflecting as relatively flat shipments were offset by a 24.7% 27.1% decrease in average selling prices along with a 3.2% decrease in shipments. prices. The decrease in average selling prices was driven by competitive pricing pressures and declining a decline in raw material costs. The decline in shipments was due to a reduction in new project activity during the current quarter.

Gross Profit

Gross profit for the third first quarter of 2023 2024 decreased 64.9% 64.7% to $20.4 million $6.3 million, or 12.3% 5.2% of net sales, from $58.1 million $17.8 million, or 25.6% 10.7% of net sales, in the prior year quarter due to lower spreads between average selling prices and raw material costs ($32.4 million) along with a decrease in shipments ($2.3 11.0 million) and higher manufacturing costs ($3.0 million) 499,000). The decrease in spreads was driven by lower average selling prices ($53.1 45.8 million) partially offset by lower raw material costs ($20.4 34.6 million) and freight expense ($263,000) 201,000).

Selling, General and Administrative Expense

Selling, general and administrative expense ("SG&A expense") for the third first quarter of 2023 2024 decreased 3.8% 10.7% to $7.9 million $6.4 million, or 4.8% 5.2% of net sales, from $8.2 million $7.1 million, or 3.6% 4.3% of net sales, in the prior year quarter primarily due to lower compensation expense ($674,000) and the relative year-over-year change in the cash surrender value of life insurance policies ($1.1 million) 312,000) partially offset by higher legal expense ($147,000). The decrease in compensation expense ($1.0 million). was primarily driven by a decrease in incentive plan expense due to a decline in financial results. The cash surrender value of life insurance policies increased $122,000 $675,000 in the current year quarter compared with a decrease an increase of $977,000 $363,000 in the prior year quarter due to the corresponding changes in the value of the underlying investments.

Other Income, net

Other income for the first quarter of 2024 decreased to $22,000 from $3.3 million in the prior year quarter. The increase in compensation expense decrease was primarily due to higher incentive plan expense in the current quarter in comparison to achieving the maximum plan expense during the first quarter of the prior fiscal year. year period including a $3.3 million net gain from the sale of property, plant and equipment.

Interest Income

Interest income increased to $1.1 million due to an increase in cash and higher average interest rates.

Income Taxes

Our effective tax rate for the third quarter of 2023 decreased to 22.0% $1.2 million from 22.7% for the prior year quarter primarily due to changes in book versus tax differences.

Net Earnings

Net earnings for the third quarter of 2023 decreased to $10.6 million ($0.54 per share) from $38.6 million ($1.96 per diluted share) in the prior year quarter primarily due to the decrease in gross profit partially offset by lower SG&A expense and increased interest income.

First Nine Months of Fiscal 2023 Compared to First Nine Months of Fiscal 2022

Net Sales

Net sales for the first nine months of 2023 decreased 20.6% to $491.7 million from $618.8 million in the same year-ago period, reflecting a 13.1% decrease in average selling prices along with an 8.6% decrease in shipments. The decrease in average selling prices was driven by competitive pricing pressures and declining raw material costs. The decline in shipments was due to reduced demand resulting from inventory management measures pursued by our customers during the first half of the fiscal year and a decrease in new project activity.

Gross Profit

Gross profit for the first nine months of 2023 decreased 67.4% to $51.4 million, or 10.5% of net sales, from $157.5 million, or 25.5% of net sales, in the same year-ago period. The year-over-year decrease was primarily due to lower spreads between average selling prices and raw material costs ($79.1 million) along with a decrease in shipments ($14.4 million) and higher manufacturing costs ($12.6 million). The decrease in spreads was driven by lower average selling prices ($71.0 million), higher raw material costs ($6.7 million) and an increase in freight expense ($1.4 million).

Selling, General and Administrative Expense

SG&A expense for the first nine months of 2023 decreased 18.6% to $22.6 million, or 4.6% of net sales, from $27.7 million, or 4.5% of net sales, in the same year-ago period primarily due to lower compensation expense ($3.1 million) and the relative year-over-year changes in the cash surrender value of life insurance policies ($2.3 million) partially offset by higher employee benefit expense ($581,000). The decrease in compensation expense was largely driven by lower incentive plan expense due to a decline in financial results in the current year period. The cash surrender value of life insurance policies increased $854,000 in the current year period compared with a decrease of $1.4 million in the prior year due to the corresponding changes in the value of the underlying investments. The increase in employee benefits expense was due to a net gain on the settlement of life insurance policies ($364,000) in the prior year along with higher employee health insurance costs in the current year period.

Other (Income) Expense, net

Other income of $3.4 million for the first nine months of 2023 was primarily related to a net gain from the sale of property, plant and equipment ($3.3 million).

Interest Income

Interest income increased to $2.3 million due to an increase in cash and higher average interest rates.

Income Taxes

Our effective tax rate for the first nine months quarter of 2023 decreased 2024 increased to 22.3% 27.2% from 22.6% 22.9% for the same prior year ago period quarter primarily due to changes in permanent book versus tax differences. differences for stock-based compensation which were treated as discrete in the current period.

Net Earnings

Net earnings for the first nine months quarter of 2023 2024 decreased to $26.8 million $1.1 million ($1.37 0.06 per share) from $100.7 million $11.1 million ($5.13 0.57 per diluted share) in the same year-ago period prior year quarter primarily due to the decrease in gross profit and other income partially offset by the increase in interest income and lower SG&A expense and increased interest income. expense.

<u>Liquidity and Capital Resources</u>

Selected Financial Data

(Dollars in thousands)

	Nine Months Ended	Three Months Ended

	July 1, 2023	July 2, 2022	December 30, 2023	December 31, 2022
Net cash provided by operating activities	$ 103,326	$ 15,114	$ 21,834	$ 33,006
Net cash used for investing activities	(16,724)	(2,739)		
Net cash (used for) provided by investing activities			(12,382)	1,639
Net cash used for financing activities	(43,178)	(39,214)	(49,507)	(40,323)
Net working capital	246,576	248,629	198,380	243,298
Total debt	-	-	-	-
Percentage of total capital	-	-	-	-
Shareholders' equity	$ 375,066	$ 364,924	$ 333,595	$ 360,674
Percentage of total capital	100.0%	100.0%	100.0%	100.0%
Total capital (total debt + shareholders' equity)	$ 375,066	$ 364,924	$ 333,595	$ 360,674

Operating Activities

Operating activities provided $103.3 million $21.8 million of cash during the first nine months quarter of 2024 primarily from net earnings adjusted for non-cash items together with a net decrease in working capital. Working capital provided $16.3 million of cash due to a $20.1 million reduction in accounts receivable and a $9.2 million decrease in inventories partially offset by a $12.9 million decrease in accounts payable and accrued expenses. The decrease in accounts receivable was largely driven by the decrease in shipments in the quarter combined with lower average selling prices. The decrease in inventories was primarily due to lower average unit costs. The decrease in accounts payable and accrued expenses was largely due to lower raw material purchases near the end of the period, lower raw material unit costs and decreases in accrued salaries, wages and related expenses.

Operating activities provided $33.0 million of cash during the first quarter of 2023 primarily from net earnings adjusted for non-cash items together with a net decrease in working capital. Working capital provided $67.1 million $17.8 million of cash due to a $64.5 million $26.5 million decrease in inventories and a $15.3 million $12.9 million reduction in accounts receivable partially offset by a $12.7 million $21.5 million decrease in accounts payable and accrued expenses. The decrease in inventories was primarily due to lower raw material purchases during the quarter along with lower average unit costs. The decrease in accounts receivable was largely driven by the decrease in shipments in the quarter combined with lower average selling prices. The decrease in accounts payable and accrued expenses was largely due to the timing of payments related to raw material purchases, lower unit costs and a reduction in accrued incentive plan expense.

Operating activities provided $15.1 million of cash during the first nine months of 2022 primarily from net earnings adjusted for non-cash items together with a net increase in working capital. Working capital used $99.5 million of cash due to a $113.4 million increase in inventories and a $13.3 million increase in accounts receivable partially offset by a $27.2 million increase in accounts payable and accrued expenses. The increase in inventories was the result of higher raw material purchases during the period together with higher average unit costs. The increase in accounts receivable was due to higher average selling prices. The increase in accounts payable and accrued expenses was largely due to higher raw material purchases during the period and the timing of payments. period.

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

Investing Activities

Investing activities used $16.7 million $12.4 million of cash during the first nine months quarter of 2023 2024 compared to using $2.7 million providing $1.6 million during the prior year period primarily due to higher capital expenditures ($14.3 million) partially offset by the increased decreased receipt of proceeds from the sale of property, plant and equipment and assets held for sale ($3.0 9.9 million) partially offset by higher capital expenditures ($4.1 million). Capital expenditures increased to $26.6 million $12.3 million from $12.3 million $8.2 million in the prior year period and are expected to total up to approximately $35.0 million $30.0 million for fiscal 2023. 2024. Capital expenditures for fiscal 2023 2024 are to support costs and productivity initiatives, modernize our facilities and information systems, advance the growth of our engineered structural mesh business and support cost and productivity improvement initiatives in addition to recurring maintenance requirements.

Our investing activities are largely discretionary, providing us with the ability to significantly curtail outlays when warranted based on business conditions.

Financing Activities

Financing activities used $43.2 million $49.5 million of cash during the first nine months quarter of 2023 2024 compared to $39.2 million $40.3 million during the prior year period. During the first nine months quarter of 2024, $49.2 million of cash was used for dividend payments (including a special dividend of $48.6 million, or $2.50 per share, and regular quarterly dividend totaling $583,000, or $0.03 per share) and $539,000 for the repurchase of common stock. During the first quarter of 2023, $40.7 million $39.5 million of cash was used for dividend payments (including a special dividend of $38.9 million, or $2.00 per share, and regular quarterly dividend totaling $1.8 million, $584,000, or $0.09 $0.03 per share) and $2.3 million $916,000 for the repurchase of common stock. During the first nine months of 2022, we declared and paid a special dividend totaling $38.8 million, or $2.00 per share, and regular quarterly dividends totaling $1.8 million, or $0.09 per share.

Cash Management

Our cash is principally concentrated at one major 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 March 2023, we amended our credit agreement to extend the maturity date of the Credit Facility from May 15, 2024, to March 15, 2028 and replaced the London Inter-Bank Offered Rate with the Secured Overnight Financing Rate. The Credit Facility provides for an accordion feature whereby its size may be increased by up to $50.0 million, subject to our lender’s approval. 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 July 1, 2023 December 30, 2023, no borrowings were outstanding on the Credit Facility, $98.5 million $96.7 million of borrowing capacity was available and outstanding letters of credit totaled $1.5 million (see Note 9 to the consolidated financial statements).

We believe that, in the absence of significant unanticipated funding requirements, cash and cash equivalents, net cash generated by operating activities and the borrowing availability provided under the Credit Facility will be sufficient to satisfy our expected requirements for working capital, capital expenditures, dividends and share repurchases, if any. We expect to have access to the amounts available under the Credit Facility as required. 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, cease dividend payments, delay or restrict share repurchases 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 would be 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 and borrowing capacity available to us under our Credit Facility position us to meet our anticipated liquidity requirements for the foreseeable future, including the next 12 months.

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, shipments typically reach their highest level of the year when weather conditions are the most conducive to construction activity. As a result, assuming normal seasonal weather patterns, 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, construction activity and demand for our products is generally correlated with general economic conditions, although there can be significant differences between the relative strength of nonresidential and residential construction for extended periods.

Impact of Inflation

We are subject to inflationary risks arising from fluctuations in the market prices for our primary raw material, hot-rolled carbon steel wire rod, and, to a much lesser extent, labor rates, 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 the first nine months quarter of 2023, wire rod prices declined primarily due to reductions in the cost of scrap for wire producers and weakening demand. Selling 2024, selling prices for our products declined in response to the softening in demand mainly the result of inventory destocking measures pursued by our customers, and competitive pricing pressures which negatively impacted our financial results as we consumed higher cost inventory that was purchased in prior periods. inventory. The timing and magnitude of any future increases in our raw material costs and the selling prices for our products are uncertain at this time.

Contractual Obligations

There have been no material changes in our contractual obligations and commitments as disclosed in our 2022 2023 Annual Report other than those which occur in the ordinary course of business.

Critical Accounting Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information. The preparation of our 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. These estimates, assumptions and judgments are affected by our application of accounting policies, which are discussed in our 2022 2023 Annual Report. Estimates are used for, but not limited to, determining the net carrying value of trade accounts receivable, inventories, recording self-insurance liabilities and other accrued liabilities. Actual results could differ from these estimates. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" included in our 2022 2023 Annual Report for further information regarding our critical accounting policies and estimates. As of July 1, 2023 December 30, 2023, none of our accounting estimates were deemed to be critical for the accounting periods presented, which is consistent with our assessment of critical accounting estimates disclosed in our 2022 2023 Annual Report.

Recent Accounting Pronouncements

Refer to Note 2 of the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report for recently adopted and issued accounting pronouncements including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

Outlook

As we look ahead to the remainder of fiscal 2023, 2024, we anticipate a continued modest recovery, stronger market fundamentals and improving financial results. Customer sentiment remains mostly positive, and the macroeconomic outlook is improving with our financial results benefiting from the improvement in spreads between average selling prices and raw material costs, as we consume lower cost inventory. However, while we expect improved sales volume moving forward, shipments have yet to regain the anticipated momentum following the completion of customer destocking, which impacted our results for the first half apparent end of the year. Nevertheless, we remain optimistic as the leading economic indicators for nonresidential construction exhibit a healthy outlook, and the residential market recovery continues to progress. recent rising interest rate cycle. Furthermore, the outlook for infrastructure construction remains favorable as federal spending from the Infrastructure Investment and Jobs Act is expected to begin to drive increase demand as we move into progress through the second half of the calendar year and beyond. fiscal year.

We will continue to focus on those factors that we can reasonably control, including closely managing expenses; aligning our production schedules with demand to minimize our cash operating costs; and pursuing further improvements in the productivity and effectiveness of all our manufacturing, selling and administrative activities. We also expect gradually increasing contributions from the substantial investments we have made in recent years and expect to continue to make in our facilities in the form of reduced operating costs and additional capacity to support future growth. Also, we will continue to pursue acquisitions opportunistically to expand our penetration of markets we currently serve or to expand our footprint.

Item 3. 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 appropriate, 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 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 carbon 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, quotas and other trade actions. Although changes in our wire rod costs and selling prices tend to be correlated, in weaker market environments, we may be unable to fully recover increased wire rod costs through higher selling prices, which would reduce our earnings and cash flows. Additionally, when raw material costs decline, our financial results may be negatively impacted if the selling prices for our products decrease to an even greater extent and if we are consuming higher cost material from inventory. Based on our shipments and average wire rod cost reflected in cost of sales for the first nine months quarter of 2023, 2024, a 10% increase in the price of wire rod would have resulted in a $32.8 million $7.9 million decrease in our pre-tax earnings (assuming there was not a corresponding change in our selling prices).

Interest Rates

Although we did not have any balances outstanding on our Credit Facility as of July 1, 2023 December 30, 2023, future borrowings under the 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 July 1, 2023 December 30, 2023.

Item 4. Controls and Procedures

We have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of July 1, 2023 December 30, 2023. This evaluation was conducted under the supervision and with the participation of management, including our principal executive officer and our principal financial officer. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Further, they concluded that our disclosure controls and procedures were effective to ensure that information is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the quarter ended July 1, 2023 December 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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 costs to resolve these matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

During the quarter ended July 1, 2023 December 30, 2023, there have been no material changes from the risk factors set forth under Part I, Item 1A. "Risk Factors" in our 2022 2023 Annual Report. You should carefully consider these factors in addition to the other information set forth in this report which could materially affect our business, financial condition or future results. The risks and uncertainties described in this report and in our 2022 2023 Annual Report, as well as other reports and statements that we file with the SEC, are not the only risks and uncertainties facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the repurchases of common stock during the quarter ended July 1, 2023. There were no share repurchases during the quarter ended July 2, 2022 December 30, 2023.

(In thousands except share and per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plan or Program

April 2, 2023 - May 6, 2023	10,453	$	27.72	10,453	$	21,338 (1)
May 7, 2023 - June 3, 2023	3,786	$	29.92	3,786	$	21,225 (1)
June 4, 2023 - July 1, 2023	-		-	-	$	21,225 (1)
	14,239			14,239		

(In thousands except share and per share amounts)	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program		Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plan or Program
For the three months ended December 30, 2023						
October 1, 2023 - November 4, 2023	14,239	$	27.85	14,239	$	20,828 (1)
November 5, 2023 - December 2, 2023	4,837	$	29.45	4,837	$	20,686 (1)
December 3, 2023 - December 30, 2023	-		-	-	$	20,686 (1)
	19,076			19,076		

(1) Under the $25.0 million share repurchase authorization announced on November 18, 2008, which continues in effect until terminated by the Board of Directors.

Additional information regarding our share repurchase authorization is discussed in Note 11 to our consolidated financial statements and incorporated herein by reference.

Item 5. Other Information

Insider Adoption or Termination of Trading Arrangements

During the fiscal quarter ended July 1, 2023 December 30, 2023, none of our directors or officers adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Item 408 of Regulation S-K.

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Item 6. Exhibits

10.1*	Letter of Employment between the Company and Elizabeth C. Southern dated April 26, 2023.
10.2*	Change in Control Severance Agreement between the Company and Elizabeth C. Southern dated June 5, 2023.
10.3*	Amended and Restated Retirement Security Agreement between the Company and Elizabeth C. Southern dated June 5, 2023.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from the Quarterly Report on Form 10-Q of Insteel Industries, Inc. for the quarter ended July 1, 2023 December 30, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended July 1, 2023 December 30, 2023, and July 2, 2022 December 31, 2022, (ii) the Consolidated Balance Sheets as of July 1, 2023 December 30, 2023, and October 1, 2022 September 30, 2023, (iii) the Consolidated Statements of Cash Flows for the nine three months ended July 1, 2023 December 30, 2023, and July 2, 2022 December 31, 2022, (iv) the Consolidated Statements of Shareholders’ Equity for the three and nine months ended July 1, 2023 December 30, 2023, and July 2, 2022 December 31, 2022, and (v) the Notes to Consolidated Financial Statements.
104	The cover page from our Quarterly Report on Form 10-Q for the quarter ended July 1, 2023 December 30, 2023, formatted in iXBRL and contained in Exhibit 101.

*Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

Our SEC file number reference for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 1-09929.

SIGNATURES

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

INSTEEL INDUSTRIES INC.
Registrant

Date: July 20, 2023 By: /s/ Scot R. JafroodiINSTEEL INDUSTRIES INC.
Registrant

Date: January 18, 2024 By: /s/ Scot R. Jafroodi

Scot R. Jafroodi

Vice President, Chief Financial Officer and Treasurer

(Duly(Duly Authorized Officer and Principal Financial Officer)

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Exhibit 10.1

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April 26, 2023
Beth Southern
101 Scenic Ridge Place
King, NC 27021

Dear Beth:

Insteel is pleased to extend this offer of employment to you to serve as Vice President - Administration, Secretary, and Chief Legal Officer of Insteel Industries, Inc. This letter will serve as written confirmation of the details of the employment offer.

For your consideration, the following is an overview of your compensation and a brief description of benefits currently offered by Insteel Industries, Inc.

- Starting Date: TBD – June 2023. You will report to me.
- Starting salary: $10,576.93 paid bi-weekly.
- You will be eligible to participate in our Return on Capital Incentive Compensation Plan with a target of 60% of your base pay. The payout maximum is two (2) times the 60% target. Therefore, the actual incentive pay can be from 0% - 120% of base pay based on Company performance during the fiscal year. Any incentive pay for Fiscal Year 2023 would be prorated for time worked/W-2 base salary earned during the fiscal year. Participants in the Plan must be actively employed by Insteel at the time the bonus is paid to be eligible.
- You will be eligible to participate in certain executive benefits, including Supplemental Executive Retirement Plan (SERP), Split Dollar Life Insurance, Change in Control Agreement, and the Equity Incentive Plan. The Equity Incentive Plan (EIP) annual target value will be $150,000. Fifty percent of the annual award value ($75,000) is granted in February, and fifty percent ($75,000) in August. Half of the award value will be delivered in Restricted Stock Units and the remaining half of the award will be delivered in Incentive Stock Options (ISO's) or Non-Qualified Stock Options (NQSO's). Your initial award in August 2023 will be increased to a target value of $150,000 and revert to a target value of $75,000 in February 2024. These plans are subject to change or cancellation by the Board of Directors at any time.
- After completion of a thirty-day period you will be eligible for the following benefits:

Medical Insurance Dental Insurance Life Insurance

Flexible Benefits Vision Insurance

- If you incur COBRA costs to continue your present medical coverage, the Company will reimburse the cost of COBRA continuation up until the time you are eligible for the Insteel plan.
- After ninety (90) days of service you will be eligible for company paid Short-term Disability and Long-term Disability insurance, and the Insteel Retirement Savings 401 (k) Plan.

- We take a flexible approach to vacation time for this role with the guideline generally 15 days of vacation per calendar year to start. Vacation may not be carried over from one year to another.

Employment with Insteel Industries Inc. is contingent upon passing a drug test, background check, and reference checks. Please contact Steve Burgess at (336) 786-2141 Ext. 3025 or rburgess@insteel.com to initiate the post offer process.

Insteel requires new employees to execute the documents listed below. We can discuss any questions that may arise following your review.

- Drug and Alcohol Guidelines (Substance Abuse Policy)
- Background Checks Policy and Authorization Form
- Application Form
- Confidentiality Agreement (Please note witness signature block.)
- Code of Conduct
- Insider Trading Policy
- E-mail Policy
- Computer Software Policy
- Internet Agreement
- Two copies of the Confirmation Letter (please retain one original for your records)

Insteel's most recent Annual Report, Benefits Guide and an I-9 Information form are enclosed.

While we believe our relationship will be mutually beneficial, please understand that we are not offering employment of a fixed term and you should not construe this letter, our offer of employment, or our previous meetings as intent by Insteel to enter a contractual employment arrangement with you.

Should you have any questions as you consider your future employment with Insteel, please call me. I sincerely look forward to you joining our company.

Sincerely,

/s/ H.O. Woltz III

H.O. Woltz III

Chairman, President, and Chief Executive Officer

I have read and understand the contents of this letter.

/s/ Elizabeth C. Southern Signature

Beth Southern

April 26, 2023 Date

Exhibit 10.2

"Group B"

CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (the "Agreement") is made and entered into this 5th day of June 2023, between INSTEEL INDUSTRIES INC. a North Carolina corporation (the "Company") and Elizabeth C. Southern (the "Executive"). Certain capitalized terms used in this Agreement are defined in Section 6.

RECITALS

The Company acknowledges that Executive is expected to make significant contributions to the growth and success of the Company. The Company also acknowledges that there exists the possibility of a Change in Control of the Company. The Company recognizes that the possibility of a Change in Control may contribute to uncertainty on the part of senior management and may result in the departure or distraction of senior management from their operating responsibilities.

Strong and competent management of the Company is essential to advancing the best interests of the Company and its partners and its shareholders. In the event of a threat or occurrence of a bid to acquire or change control of the Company or to effect a business combination, it is particularly important that the business of the Company be continued with a minimum of disruption. The Company believes that the objective of securing and retaining strong management will be achieved if the Company's key management employees are given assurances of employment security so that they will not be distracted by personal uncertainties and risks created by such circumstances.

NOW, THEREFORE, in consideration of the mutual covenants and obligations herein the Company and Executive agree as follows:

1. **Effective Date**. The Effective Date of this Agreement is June 5, 2023.
2. **Term of Agreement**. The Term of this Agreement begins on the Effective Date and ends on the day before the second anniversary of the Effective Date. Notwithstanding the preceding sentence, the Term of this Agreement shall be extended for an additional twelve month period, as of each anniversary of the Effective Date, unless either party gives

written notice, at least ninety days prior to the applicable anniversary of the Effective Date, that the Term of this Agreement will not be extended.

3. **Right to Receive Termination Benefits**. Executive shall be entitled to receive the Termination Benefits described in Section 4 if (i) a Change in Control occurs during the Term of this Agreement and (ii) within two years after the Control Change Date either (x) the Company terminates Executive's employment with the Company without Cause or (y) Executive resigns from the employment of the Company and Executive has Good Reason to resign from the Company, and either (x) or (y), as applicable, constitutes a Separation from Service with the Company.

No amounts will be payable under this Agreement unless Executive's employment with the Company terminates or is terminated as described in the foregoing subsection.

4. **Termination Benefits**. Upon a termination of Executive's employment in accordance with Section 3, Executive shall be entitled to receive the following payments and benefits ("Termination Benefits"):

(a) A lump sum payment of any accrued but unpaid salary from the Company through the date Executive's employment terminates.

(b) A lump sum payment of any bonus that has been earned from the Company but which remains unpaid as of Executive's termination of employment.

(c) A lump sum reimbursement for any expenses Executive incurred on behalf of the Company prior to termination of employment to the extent that such expenses are reimbursable under the Company's standard reimbursement policies but have not been reimbursed as of Executive's termination of employment.

(d) Continued payment of Executive's base salary, for one year following Executive's termination, at the rate in effect on the date of Executive's termination of employment or, if greater, at the rate in effect on the Control Change Date. Except as provided in Section 19, such payments shall be made in accordance with the Company's normal payroll practices beginning with the first payroll payment date following the Executive's termination of employment.

(e) A lump sum payment equal to one times the average bonus paid to the Executive for the three -year period prior to the Executive's termination of employment; provided, however, that if the Executive has not been employed for a full three years at the time of her termination of employment, Executive shall receive, in lieu of the foregoing amount, a lump sum payment equal to her annual base salary at the rate in effect on the date of Executive's termination of employment or, if greater, at the rate in effect on the Control Change Date, multiplied by the average bonus percentage for the immediately preceding three years for the executive management group of the Company (not including the Executive).

(f) Reasonable outplacement services provided by the firm selected by Executive, the cost of which will be paid by the Company; provided, however, that the Company's obligation under this subsection (f) will not exceed $15,000.

(g) Continued participation in the "employee welfare benefit plans" (as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended) in which Executive participates immediately prior to Executive's date of termination, on such terms as are then in effect, for one year following the termination of Executive's employment with the Company and payment by the Company of the cost or premium for continued coverage in the Company health plan for a period of one year following Executive's termination of employment. In the event that the continued coverage of Executive in any such employee welfare benefit plan, including without limitation the Company health plan, is barred by its terms, the Company shall pay Executive, for one year following Executive's termination of employment, the cash equivalent of the portion of the insurance premium or other cost charged to the Company for Executive's participation in such employee welfare benefit plan(s), including the entire insurance premium or other cost for coverage in the Company health plan, prior to Executive's termination of employment, plus an additional amount such that, after payment of the income and employment tax liability on such payment, Executive retains an amount equal to the portion of the insurance premium or other cost charged to the Company for Executive's participation in such employee welfare benefit plans, including the entire insurance premium or other cost for coverage in the Company health plan, prior to Executive's termination of employment. Except as provided in Section 19, such cash payments, in lieu of coverage, shall be made in accordance with the Company's normal payroll practices during such one-year period beginning with the first payroll payment date following the Executive's termination of employment.

(h) All stock options and any other stock-based awards outstanding immediately prior to Executive's termination of employment shall immediately vest and become exercisable by Executive for the remainder of the term provided for in the agreement evidencing the stock option or award in which such options or other stock-based awards were granted.

(i) Except as provided in Section 19, lump sum Termination Benefits shall be payable within 45 days of Executive's termination of employment in accordance with Section 3 and the other Termination Benefits shall be payable as described above. The payment of the Termination Benefits shall be reduced by amounts required to be withheld for applicable income and employment taxes.

5. **Limitation on Parachute Payments**. The Termination Benefits and other payments, distributions and benefits provided by the Company for Executive's benefit pursuant to this Agreement and under other plans, programs, and agreements may constitute Parachute Payments (as defined in Section 280G(b) of the Internal Revenue Code of 1986 (the "Code") that are subject to the "golden parachute" rules of Code section 280G and the excise tax of Code section 4999. The Company and Executive intend to reduce any Parachute Payments (but not any payment, distribution or other benefit that is not a Parachute Payment) if, and only to the extent that, a reduction will allow Executive to receive a greater Net After Tax Amount than she would receive absent a reduction. The remaining provisions of this Section describe how that intent will be effectuated.

(a) The Company will first determine the amount of any Parachute Payments that are payable to Executive. The Company will also determine the Net After Tax Amount attributable to total Parachute Payments.

(b) The Company will next determine the amount of Executive's Capped Parachute Payments. Thereafter, the Company will determine the Net After Tax Amount attributable to Executive's Capped Parachute Payments.

(c) Executive shall receive the total Parachute Payments unless the Company determines that the Capped Parachute Payments will yield Executive a higher Net After Tax Amount, in which case Executive will receive the Capped Parachute Payments. If Executive will receive the Capped Parachute Payments, the total Parachute Payments will be adjusted by first reducing the amount payable under any other plan, program, or agreement that, by its terms, requires a reduction to prevent a "golden parachute" payment under Code section 280G; by next reducing Executive's benefit, if any, under this Agreement, to the extent it is a Parachute Payment; and thereafter by reducing Parachute Payments payable under other plans and agreements (with the reductions first coming from cash benefits and then from noncash benefits). The Company will notify Executive if it determines that the Parachute Payments must be reduced to the Capped Parachute Payments and will send Executive a copy of its detailed calculations supporting that determination. The Company will pay Executive the Termination Benefits or the reduced Termination Benefits determined in this Section 5 as described in Sections 4 and 19.

6. **Certain Definitions**. As used in this Agreement, certain terms have the definitions set forth below.

(a)*Acquiring Person* means that a Person, considered alone or together with all Control Affiliates and Associates of that Person, is or becomes directly or indirectly the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of securities representing at least twenty five percent (25%) of the Company's then outstanding securities entitled to vote generally in the election of the Board.

(b)*Associate*, with respect to any Person, is defined in Rule 12b-2 under the Exchange Act; provided,however, that an Associate shall not include the Company or a majority-owned affiliate of the Company.

(c)*Board* means the Board of Directors of the Company.

(d)*Capped Parachute Payments* means the largest amount of Parachute Payments that may be paid without liability for any excise tax under Code section 4999.

(e)*Cause* means (i) willful, deliberate and continued failure by Executive (other than for reason of mental or physical illness) to perform her duties as established by the Board, or fraud or dishonesty in connection with such duties, in either case, if such conduct has a materially detrimental effect on the business operations of the Company; (ii) a material breach by Executive of her fiduciary duties of loyalty or care to the Company; (iii) conviction of any crime (or upon entering a plea of guilty or nolo contendere to a charge of any crime) constituting a felony; (iv) misappropriation of the Company's funds or property; or (v) willful, flagrant, deliberate and repeated infractions of material published policies and regulations of the Company of which Executive has actual knowledge.

(f)*Change in Control* means (i) a Person is or becomes an Acquiring Person; (ii) holders of the securities of the Company entitled to vote thereon approve any agreement with a Person (or, if such approval is not required by applicable law and is not solicited by the Company, the closing of such an agreement) that involves the transfer of more than fifty percent (50%) of the Company's and its affiliates' total assets on a consolidated basis, as reported in the Company's consolidated financial statements filed with the Securities and Exchange Commission; (iii) holders of the securities of the Company entitled to vote thereon approve a transaction (or, if such approval is not required by applicable law and is not solicited by the Company, the closing of such a transaction) pursuant to which the Company will undergo a merger, consolidation, or statutory share exchange with a company, regardless of whether the Company is intended to be the surviving or resulting entity after the merger, consolidation, or statutory share exchange, *other than* a transaction that results in the voting securities of the Company carrying the right to vote in elections of persons to the Board outstanding immediately prior to the closing of the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the Company's voting securities carrying the right to vote in elections of persons to the Board, or such securities of such surviving entity, outstanding immediately after the closing of such transaction; (iv) the Continuing Directors cease for any reason to constitute a majority of the Board; (v) holders of the securities of the Company entitled to vote thereon approve a plan of complete liquidation of the Company or an agreement for the sale or liquidation by the Company or its affiliates of substantially all of the assets of the Company and its affiliates (or, if such approval is not required by applicable law and is not solicited by the Company, the commencement of actions constituting such a plan or the closing of such an agreement); or (vi) the Board adopts a resolution to the effect that, in its judgment, as a consequence of any one or more transactions or events or series of transactions or events, a Change in Control of the Company has effectively occurred.

(g)*Continuing Director* means any member of the Board, while a member of the Board and (i) who was a member of the Board on the Effective Date or (ii) whose nomination for or election to the Board was recommended or approved by a majority of the Continuing Directors.

(h)*Control Affiliate*, with respect to any Person, means an affiliate as defined in Rule 12b-2 under the Exchange Act.

(i)*Control Change Date* means the date on which a Change in Control occurs. If a Change in Control occurs on account of a series of transactions or events, the "Control Change Date" is the date of the last of such transactions or events in the series.

(j)*Exchange Act* means the Securities Exchange Act of 1934, as amended.

(k) *Good Reason* means Executive's resignation from the employment of the Company and its affiliates on account of one or more of the following events:

(i) a material diminution by the Board of the duties, functions and responsibilities of Executive as the **Vice President** – **Administration, Secretary and Chief Legal Officer o**f the Company without her consent;

(ii) the failure of the Company to permit Executive to exercise such responsibilities as are consistent with Executive's positions or are of a nature as are usually associated with such offices of a corporation engaged in substantially the same business as the Company;

(iii) the Company's causing Executive to relocate her employment more than fifty (50) miles from Mt. Airy, North Carolina, or her place of primary residence as of the Effective Date of this Agreement, without the consent of Executive;

(iv) the failure of the Company to make a payment to Executive when due or, if later, within 10 days after Executive has made demand for such payment;

(v) the Company's material reduction of Executive's (A) annual base salary, as in effect from time to time after the Effective Date; (B) bonus, such that the aggregate threshold, target, or maximum bonus projected for Executive for a fiscal year is lower than the aggregate threshold, target, or maximum bonus, respectively, projected for Executive for the immediately preceding fiscal year; or (C) employee welfare, fringe or pension benefits, other than reductions determined to be necessary to comply with the Employee Retirement Income Security Act of 1974, as amended, or to retain the tax-qualified or tax-favored status of the benefit under the Code, which determination shall be made by the Board in good faith;

(vi) a breach of Section 10 of this Agreement;

(vii) the Company or the Board directs Executive to engage in unlawful or unethical conduct or conduct contrary to the Company's good business practices.

(l)*Net After Tax Amount* means the amount of any Parachute Payments or Capped Parachute Payments, as applicable, net of taxes imposed under Code sections 1, 3101(b) and 4999 and any state or local income taxes applicable as in effect on the date of the payment under Section 5 of this Agreement. The determination of the Net After Tax Amount shall be made using the highest combined effective rate imposed by the foregoing taxes on income of the same character as the Parachute Payments or Capped Parachute Payments, as applicable, in effect for the year for which the determination is made.

(m)*Person* means any human being, firm, corporation, partnership, or other entity. "Person" also includes any human being, firm, corporation, partnership, or other entity as defined in sections 13(d)(3) and 14(d)(2) of the Exchange Act. The term "Person" does not include the Company, or any Related Entity, and the term Person does not include any employee-benefit plan maintained by the Company or any Related Entity, and any person or entity organized, appointed, or established by the Company or any Related Entity for or pursuant to the terms of any such employee-benefit plan, unless the Board determines that such an employee-benefit plan or such person or entity is a "Person".

(n)*Related Entity* means any entity that is part of a controlled group of corporations or is under common control with the Company within the meaning of section 1563(a), 414(b) or 414(c) of the Code.

(o)*Separation from Service* means the termination of the Executive's employment with the Company and all Related Entities; provided, however, that the Executive will not be considered as having had a Separation from Service if (i) the Executive continues to provide services to the Company or any Related Entity as an employee at an annual rate that is at least equal to 20 percent of the services rendered, on average, during the immediately preceding three full calendar years of employment (or, if employed less than three years, such lesser period) and the annual remuneration for such services is at least equal to 20 percent of the average annual remuneration earned during the final three full calendar years of employment (or if less, such lesser period), (ii) the Executive continues to provide services to the Company or any Related Entity in a capacity other than as an employee and such services are provided at an annual rate that is 50 percent or more of the services rendered, on average, during the immediately preceding three full calendar years of employment (or, if employed less than three years, such lesser period) and the annual remuneration for such services is 50 percent or more of the annual remuneration earned during the final three full calendar years of employment (or, if less, such lesser period) or (iii) the Executive is on military leave, sick leave or other bona fide leave of absence (such as temporary employment by the government) so long as the period of such leave does not exceed six months, or if longer, so long as the Executive's right to reemployment with the Company or any Related Entity is provided either by statute or by contract. If the period of leave exceeds six months and the Executive's right to reemployment is not provided either by statute or by contract, the Separation from Service will be deemed to occur on the first date immediately following such six-month period. For purposes of this Section 6(o), the annual rate of providing services shall be determined based upon the measurement used to determine the Executive's base compensation. This definition of Separation from Service is intended to comply with the definition of "separation from service" as used in Section 409A(a)(2)(A)(i) of the Code and shall be interpreted accordingly.

(p)*Specified Employee* generally means an employee who is (i) an officer of the Company or a Related Entity having annual compensation greater than $140,000 (with certain adjustments for inflation after 2006), (ii) a five-percent owner of the Company or a Related Entity or (iii) a one-percent owner of the Company or a Related Entity having annual compensation greater than $150,000. This definition is intended to comply with the "specified employee" rules of Section 409A(a)(2)(B)(i) of the Code and shall be interpreted accordingly.

7. **Attorneys' Fees**. Executive shall be entitled to reimbursement by the Company for any attorneys' fees and any other reasonable expenses that Executive incurs in enforcing or protecting her rights under this Agreement. Subject to Section 19, such reimbursement shall be made within thirty days following final resolution of the dispute or occurrence giving rise to such fees and expenses, regardless of whether Executive is deemed the prevailing party in the resolution of the dispute or occurrence.

8. **No Assignment**. Except as required by applicable law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation or to execution, attachment, levy or similar process or assignment by operation of law and any attempt to effect any such action shall be null, void and of no effect.

9. **Governing Law**. This Agreement shall be governed by the laws of the State of North Carolina other than its choice of law provisions to the extent that they would require the application of the laws of a State other than the State of North Carolina.

10. **Successors**. The Company shall require any successor to all or substantially all of the Company's respective business or assets (whether direct or indirect, by purchase, merger, consolidation or otherwise), to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to resign from the employ of the Company and to receive the Termination Benefits and other benefits under this Agreement in the same amount and on the same terms as Executive would be entitled to hereunder if she terminated her employment for Good Reason following a Change in Control. References in this Agreement to the "Company" include the Company as herein before defined and any successor to the Company's business, assets or both which assumes and agrees to perform this Agreement by operation of law or otherwise.

11. **Binding Agreement**. This Agreement shall inure to the benefit of and be enforceable by Executive and her personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive dies while any amount remains payable to her hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there is none, to Executive's estate.

12. **No Employment Rights**. Nothing in this Agreement confers on Executive any right to continuance of employment by the Company or any Related Entity. Nothing in this Agreement interferes with the right of the Company or a Related Entity to terminate Executive's employment at any time for any reason whatsoever, with or without Cause, subject to the requirements of this Agreement. Nothing in this Agreement restricts the right of Executive to terminate her employment with the Company and Related Entities at any time for any reason whatsoever, with or without Good Reason.

13. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together constitute one and the same instrument.

14. **Entire Agreement**. This Agreement expresses the whole and entire agreement between the parties with reference to the payment of the Termination Benefits and supersedes and replaces any prior agreement, understanding or arrangement (whether oral or written) by or between the Company and Executive with respect to the payment of the Termination Benefits.

15. **Notices**. All notices, requests and other communications to any party under this Agreement shall be in writing and shall be given to such party at its address set forth below or such other address as such party may hereafter specify for the purpose by notice to the other party:

If to Executive:	Elizabeth C. Southern 101 Scenic Ridge Place King, NC 27021
If to the Company:	Insteel Industries Inc. 1373 Boggs Drive Mt. Airy, North Carolina 27030

Each notice, request or other communication shall be effective if (i) given by mail, seventy-two hours after such communication is deposited in the mails with first class postage prepaid, address as aforesaid or (ii) if given by any other means, when delivered at the address specified in this Section 15.

16. **Modification of Agreement**. No waiver or modification of this Agreement shall be valid unless in writing and duly executed by the party to be charged therewith. No evidence of any waiver or modification shall be offered or received in evidence at any proceeding, arbitration or litigation between the parties unless such waiver or modification is in writing, and duly executed. The parties agree that this Section 16 may not be waived except as herein set forth.

17. **Recitals**. The Recitals to this Agreement are incorporated herein and shall constitute an integral part of this Agreement.

18. **Section 409A**. This Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be construed and interpreted in accordance therewith. Notwithstanding the preceding, the Company and its Related Entities shall not be liable to the Executive or any other person if the Internal Revenue Service or any court or other authority having jurisdiction over such matter determines for any reason that any amount under this Agreement is subject to taxes, penalties or interest as a result of failing to comply with Section 409A of the Code.

19. **Delay of Payment**. Notwithstanding any other provision of this Agreement, if the Executive is a Specified Employee, to the extent necessary to comply with Section 409A of the Code, no payments or benefits (which are not otherwise exempt) may be paid or provided hereunder before the date which is six months after the Executive's Separation from Service or, if earlier, her death. The amounts which would have otherwise been required to be paid, and the benefits which would have otherwise been provided, during such six months or, if earlier, until Executive's death, shall be paid to Executive in one lump sum cash payment as soon as administratively practical after the date which is six months after Executive's Separation from Service or, if earlier, after the Executive's death. Any other payments scheduled to be made or benefits scheduled to be provided after such period shall be made or provided at the times otherwise designated in this Agreement disregarding the delay of payment for the payments and benefits described in this Section 19.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

Elizabeth C. Southern

/s/ Elizabeth C. Southern

INSTEEL INDUSTRIES INC.

By: /s/ H.O. Woltz III

Name: H.O. Woltz III

Title: President

Exhibit 10.3

AMENDED AND RESTATED
INSTEEL INDUSTRIES, INC.
RETIREMENT SECURITY AGREEMENT

THIS AMENDED AND RESTATED RETIREMENT SECURITY AGREEMENT (the "Agreement"), made and entered into as of the 5th day of June, 2023 (the "effective date"), by and between **INSTEEL INDUSTRIES, INC.**, a corporation located in Mount Airy, North Carolina (the "Corporation"), and Elizabeth C. Southern (the "Executive");

RECITALS

The Corporation desires to provide supplemental retirement benefits to the Executive separate from and in addition to any other retirement benefits to which the Executive is or may become entitled under any plan of the Corporation or any other agreement between the Executive and the Corporation.

NOW, THEREFORE, the parties hereby agree as follows:

SECTION 1Purpose.

This Agreement is being entered into by the Corporation to provide the Executive with additional retirement and death benefits for the Executive and her beneficiaries. The Agreement is not intended to be a qualified retirement plan under Section 401(a) of the Code, but it is intended to constitute an arrangement that provides nonqualified deferred compensation within the meaning of Section 409A of the Code. This Agreement is also intended to be a "plan" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and to be part of an unfunded plan maintained by the Corporation primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees of the Corporation within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

SECTION 2Supplemental Retirement Benefit.

2.1 Normal retirement. If the Executive remains in continuous service with the Corporation until she completes thirty years of continuous service with the Corporation, but her continuous service terminates for reasons other than death or by the Corporation for "cause" (as defined in Section 2.4), the Corporation shall pay a supplemental retirement benefit to the Executive. The annual amount of the supplemental retirement benefit shall be fifty percent (50%) of the Executive's final average compensation. The supplemental retirement benefit shall be paid in equal installments in accordance with the Corporation's regular payroll practices for executives in effect from time to time, commencing as of the first payroll period ending coincident with or immediately following the Executive's normal retirement date, and continuing for a term certain of fifteen years; except as otherwise provided in Sections 5 or 15. For purposes of this Agreement, unless otherwise indicated by the context:

(i) "Compensation" means the annual rate of gross base compensation in effect for the Executive for service with the Corporation in effect on the last day of the calendar year; provided, that for the year in which the Executive's termination of employment with the Corporation occurs because of retirement or otherwise, her compensation shall be the annual base rate in effect on the date of her termination of employment.

(ii) "Continuous service" means the Executive's uninterrupted service in the employment of the Corporation in a full-time capacity. The Executive's continuous service shall not be deemed to be terminated or interrupted by a leave of absence or sick leave not exceeding one year granted to the Executive by the Corporation or any other leave granted to the Executive where Executive's right to re-employment is guaranteed by statute or by contract.

(iii) "Final average compensation" means the average of the Executive's compensation as of the last day of each of the five consecutive calendar years during the ten calendar years preceding the Executive's termination of employment that produces the highest average. If the Executive has not worked during at least five consecutive calendar years during such ten calendar years immediately preceding her termination of employment, the Executive's final average compensation means the average of her compensation for all of the calendar years she worked for the Corporation during such ten years.

(iv) "Normal retirement date" means the later of (i) the Executive's sixty-fifth birthday or (ii) the date the Executive terminates continuous service with the Corporation after completing thirty years of continuous service.

(v) "Year of continuous service" means a twelve-month period of continuous service by the Executive, beginning on the Executive's initial date of employment with the Corporation (and each anniversary thereof), and ending on the day immediately preceding the anniversary of that date.

2.2 Early retirement. If the Executive remains in continuous service with the Corporation until she completes at least ten years of continuous service with the Corporation but her continuous service terminates for reasons other than death or by the Corporation for "cause" (as defined in Section 2.4) after she attains age fifty-five but prior to her normal retirement date, and she has not previously incurred a "disability" (as defined in Section 2.3), the Corporation will pay a supplemental early retirement benefit to the Executive. The annual amount of the supplemental early retirement benefit shall be fifty percent (50%) of the Executive's final average compensation determined as of the date of her termination of service, reduced by 1/360th for each full calendar month of continuous service less than 360 that the Executive has completed as of that date. The Executive's supplemental early retirement benefit shall be paid in equal installments in accordance with the Corporation's regular payroll practices for executives in effect from time to time, commencing as of the first payroll period ending coincident with or immediately following the later of the date the Executive attains age sixty-five or the date the Executive terminates continuous service, and continuing for a term certain of fifteen years; except as otherwise provided in Sections 5 or 15.

2.3 Disability retirement. If the Executive remains in continuous service with the Corporation until she completes at least ten years of continuous service with the Corporation but incurs a "disability" prior to her normal retirement date, the Corporation shall pay a supplemental disability benefit to the Executive. The amount of the supplemental disability benefit shall be as follows: (i) during the period, if any, that the Executive is receiving benefit payments under a long-term disability insurance plan for executives of the Corporation (the "LTD plan"), the amount determined under Section 2.2, treating the date of the Executive's disability as her early retirement date, provided that such amount, when added to the Executive's benefit under the LTD plan, shall not exceed one hundred percent (100%) of the Executive's final average compensation determined as of the date of her termination of service because of disability; and (ii) during any period that the Executive is not receiving benefit payments under the LTD plan, an amount equal to the greater of the Executive's benefit determined under Section 2.2 as of the date of her disability or fifty percent (50%) of the Executive's final average compensation. The Executive's supplemental disability benefit will be paid in equal installments in accordance with the Corporation's regular payroll practices for executives in effect from time to time, commencing as of the first payroll period ending coincident with or immediately following the date as of which the Executive's disability is deemed to have occurred, and continuing for a term certain of ten years. For this purpose, "disability" shall mean the Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, or (ii) is, by reason of any medically determinable physical or medical impairment that can be expected to result in death or that can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident or health plan covering employees of the Corporation. The determination of the existence or nonexistence of disability under (i) above shall be made by the Executive Compensation Committee of the Board of Directors of the Corporation (the "Compensation Committee") pursuant to a medical examination by a medical doctor selected or approved by the Compensation Committee and a medical doctor selected or approved by the Executive; provided, that if the two medical doctors shall not agree that the Executive is or is not disabled, the two doctors shall select a third medical doctor to examine the Executive, and such third doctor's determination of the Executive's disability shall be conclusive.

2.4 Termination of continuous service for "cause." Notwithstanding any other provision of this Agreement, if the Corporation terminates the Executive's continuous service for "cause," no benefit shall be paid by the Corporation pursuant to this Agreement. For this purpose, "cause" means (i) willful, deliberate and continued failure by the Executive (other than for reason of mental or physical illness) to perform her duties as established by the Board of Directors of the Corporation (the "Board"), or fraud or dishonesty in connection with such duties, in either case, if such conduct has a materially detrimental effect on the business operations of the Corporation; (ii) a material breach by the Executive of her fiduciary duties of loyalty or care to the Corporation; (iii) the conviction of the Executive of any crime (or upon entering a plea of guilty or nolo contendere to a charge of any crime) constituting a felony; (iv) misappropriation of the Corporation's funds or property by the Executive; or (v) willful, flagrant, deliberate and repeated infractions of material published policies and regulations of the Corporation of which the Executive has actual knowledge. Whether the Executive's termination is for "cause" shall be determined by the Compensation Committee.

SECTION 3Death of Executive.

3. Death while in continuous service. If the Executive dies while in continuous service with the Corporation, the Corporation will pay a supplemental death benefit to the Executive's beneficiary. The annual amount of the supplemental death benefit shall be fifty percent (50%) of the Executive's final average compensation, determined as of the date of the Executive's death. The Executive's supplemental death benefit provided in this Section 3.1 shall be paid in equal installments in accordance with the Corporation's

regular payroll practices for executives in effect from time to time, commencing as of the first payroll period ending coincident with or immediately following the date of the Executive's death and continuing for a term certain of ten years.

3.2 Death after termination of continuous service but before benefit payments commence or death after benefit payments commence. If the Executive dies either (i) after her termination of continuous service for which she is entitled to receive supplemental benefits hereunder but before such supplemental benefit payments commence, or (ii) after the date as of which such supplemental benefit payments have commenced under this Agreement, payment of the Executive's remaining supplemental benefits shall commence or continue, as the case may be, to the Executive's beneficiary following the Executive's death, treating the Executive's beneficiary as the Executive for all purposes under this Agreement.

SECTION 4Vesting.

4.1 Vesting and forfeiture of benefits. The Executive shall become vested in her supplemental benefits under this Agreement, to the extent accrued as of any date, following the first to occur of her completion of the required years of continuous service with the Corporation to be entitled to the benefit, or the date of her termination of continuous service because of death. The Executive shall not be vested in her supplemental benefits under this Agreement if she terminates service with the Corporation prior to completing the required years of continuous service to be entitled to the benefit for any reason other than death. Notwithstanding the foregoing, the Executive shall forfeit any benefits earned and vested under this Agreement if her continuous service with the Corporation is terminated by the Corporation for cause (as defined in Section 2.4).

4.2 Accelerated vesting. Notwithstanding any other provision of this Agreement, the Compensation Committee may, with the approval of the Board, direct that all or part of the Executive's supplemental benefits under this Agreement shall be nonforfeitable as of any date prior to the Executive's normal retirement date on such terms and conditions as the Compensation Committee shall determine.

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SECTION 5Deferral of Payment Date.

The Compensation Committee and the Executive may agree to establish a new date for payment of the Executive's supplemental benefits under Sections 2.1 and 2.2 that is after the dates otherwise set forth therein (referred to herein as her "subsequent payment date"); provided, that such subsequent payment date satisfies the conditions of this Section 5. For a subsequent payment date to be effective, (i) the Executive and the Compensation Committee must agree on the subsequent payment date not less than 12 months prior to the date the first payment for the particular payment event is scheduled to be made, (ii) the agreement establishing the subsequent payment date must not take effect for at least 12 months and (iii) the subsequent payment date must extend the first payment that would have been made (other than on death or disability) for a period of not less than five years from the date such payment for the particular payment event otherwise would have been made. If a subsequent payment date is established pursuant to this Section 5, this Agreement shall be administered in all respects as if such subsequent payment date was the date specified in Sections 2.1 or 2.2, except that the supplemental retirement benefit described in Sections 2.1 and 2.2, and to which the Executive would otherwise be entitled, shall be adjusted actuarially by the Compensation Committee to reflect any delay in the commencement of benefits beyond the Executive's attainment of age 65. For purposes of making such adjustment, the Compensation Committee shall apply actuarial assumptions agreed to by the Executive at the time the subsequent payment date is set.

SECTION 6Change of Control.

In the event that a Change of Control of the Corporation occurs prior to the date that payment of the Executive's benefit commences under this Agreement, then notwithstanding any other provision of this Agreement, and in lieu of the benefits payable under Section 2 or Section 3, the Executive shall be fully vested in her accrued benefit and the Corporation shall pay the lump sum present value of such accrued benefit to the Executive in a single cash payment within thirty (30) days of the effective date of the Change of Control. For purposes of this Section 6, the term "Change of Control of the Corporation" shall include all events described in Section 1.409A-3 of the Treasury Regulations in effect from time to time. The lump sum present value of the Executive's accrued benefit shall be based on the accumulated benefit obligation on the Change of Control date, as determined by the Corporation's actuary in accordance with generally accepted accounting principles.

SECTION 7Beneficiary.

The Executive's beneficiary shall be the person or persons designated by the Executive on the beneficiary designation form provided by and filed with the Compensation Committee or its designee. If the Executive does not designate a beneficiary, her beneficiary shall be her surviving spouse. If the Executive does not designate a beneficiary and has no surviving spouse, the beneficiary shall be the Executive's estate. The designation of a beneficiary may be changed or revoked only by filing a new beneficiary designation form with the Compensation Committee or its designee. If the Executive's beneficiary dies prior to asserting a written claim for any death benefit payable under the Agreement, such benefit shall be payable to the Executive's estate. If a beneficiary (the "primary beneficiary") is receiving or is entitled to receive payments under the Agreement and dies before receiving all of the payments due her, the balance to which she is entitled shall be paid to the contingent beneficiary, if any, named in the Executive's current beneficiary designation form. If there is no contingent beneficiary, the balance shall be paid to the estate of the primary beneficiary. Any beneficiary may disclaim all or any part of any benefit to which such beneficiary shall be entitled hereunder by filing a written disclaimer with the Compensation Committee at least ten days before payment of such benefit is to be made. Such a disclaimer shall be made in form satisfactory to the Compensation Committee and shall be irrevocable when filed. Any benefit disclaimed shall be payable from the Corporation under this Agreement in the same manner as if the beneficiary who filed the disclaimer had died on the date of such filing.

SECTION 8Administration by Compensation Committee.

8.1 The Compensation Committee shall be responsible for the general administration and interpretation of this Agreement and for carrying out its provisions, except to the extent all or any of such obligations are specifically imposed on the Board.

8.2 The Compensation Committee shall maintain full and complete records of its deliberations and decisions with respect to this Agreement. The minutes of its proceedings shall be conclusive proof of the facts of the operation of the Agreement. The records of the Compensation Committee with respect to this Agreement shall contain all relevant data pertaining to the Executive and her rights under the Agreement.

8.3 Subject to the limitations of the Agreement, the Compensation Committee may from time to time establish rules or by-laws for the administration of the Agreement and the transaction of its business. The Compensation Committee may correct errors and, so far as practicable, may adjust any benefit or credit or payment accordingly.

The Compensation Committee may in its discretion waive any notice requirements in the Agreement; provided, that a waiver of notice in one or more cases shall not be deemed to constitute a waiver of notice in any other case.

8.4 Subject to the provisions of Section 13, the Compensation Committee shall have the duty and authority to interpret and construe the provisions of this Agreement and to decide any dispute which may arise regarding the rights of the Executive hereunder. Benefits under this Agreement will be paid only if the Compensation Committee decides in its discretion that the Executive is entitled to them.

8.5 The Compensation Committee may engage an attorney, accountant or any other technical advisor on matters regarding the operation of the Agreement and to perform such other duties as shall be required in connection therewith, and may employ such clerical and related personnel as the Compensation Committee shall deem requisite or desirable in carrying out the provisions of the Agreement. The Compensation Committee shall from time to time, but no less frequently than annually, review the financial and liquidity needs of the Corporation under the Agreement. The Compensation Committee shall communicate such needs to the Corporation so that its policies may be appropriately coordinated to meet such needs.

8.6 The Compensation Committee shall be entitled to reimbursement by the Corporation for its reasonable expenses properly and actually incurred in the performance of its duties in the administration of the Agreement.

8.7 No member of the Compensation Committee shall be personally liable by reason of any contract or other instrument executed by her or on her behalf as a member of the Compensation Committee nor for any mistake of judgment made in good faith, and the Corporation shall indemnify and hold harmless, directly from its own assets (including the proceeds of any insurance policy the premiums for which are paid from the Corporation's own assets), each member of the Compensation Committee and each other officer, employee, or director of the Corporation to whom any duty or power relating to the administration or interpretation of the Agreement may be delegated or allocated, against any unreimbursed or uninsured cost or expense (including any sum paid in settlement of a claim with the prior written approval of the Board) arising out of any act or omission to act in connection with the Agreement unless arising out of such person's own fraud, bad faith, willful misconduct or gross negligence.

SECTION 9Funding.

The obligation of the Corporation to make payments hereunder shall constitute a liability of the Corporation to the Executive. Notwithstanding the foregoing, the Corporation may establish a grantor trust (the "Trust") to which the Corporation shall contribute according to its terms to pay the benefits provided for in the Agreement; provided, that to the extent that there shall not be sufficient funds in the Trust to make one or more payments provided for under this Agreement, such payments shall be made from the general funds of the Corporation. Except as otherwise provided herein, the Corporation shall not be required to establish or maintain any special or separate fund, or otherwise to segregate assets to assure that such payments shall be made, and the Executive shall not have any interest in any particular assets of the Corporation by reason of its obligations hereunder. When the Trust is established, a copy of the document shall be attached hereto and its terms shall be incorporated herein by reference. Nothing contained in this Agreement or the Trust shall create or be construed as creating a trust of any kind or any other fiduciary relationship between or among the Corporation, the Executive, the trustee under the Trust, or any other person. To the extent that any person acquires a right to receive payment from the Corporation or the Trust, such right shall be no greater than the right of an unsecured creditor of the Corporation. In no event shall the Trust or the assets of the Trust be located outside of the United States and at no time shall the Trust be funded if such funding would cause the Executive to be subject to taxation or penalties pursuant to Section 409A of the Code.

SECTION 10Allocation of Responsibilities.

The persons responsible for the Agreement and the duties and responsibilities allocated to each are as follows:

10.1 Board. To amend or terminate this Agreement in accordance with Section 12;

10.2 Committee.

(i) To interpret the provisions of the Agreement and to determine the rights of the Executive under the Agreement, except to the extent otherwise provided in Section 13 relating to claims procedure;

(ii) To administer the Agreement in accordance with its terms, except to the extent powers to administer the Agreement are specifically delegated to another person or persons as provided in the Agreement;

(iii) To account for the supplemental benefits of the Executive; and

(iv) To file such reports as may be required with the United States Department of Labor, the Internal Revenue Service and any other government agencies to which reports may be required to be submitted from time to time.

SECTION 11Benefits Not Assignable; Facility of Payments.

11.1 No portion of any benefit credited or paid under this Agreement with respect to the Executive shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void, nor shall any portion of such benefit be in any manner payable to any assignee, receiver or any one trustee, or be liable for her debts, contracts, liabilities, engagements or torts, or be subject to any legal process to levy upon or attach.

11.2 If any individual entitled to receive a payment under the Agreement shall be physically, mentally or legally incapable of receiving or acknowledging receipt of such payment, the Compensation Committee, upon the receipt of satisfactory evidence of her incapacity and satisfactory evidence that another person or institution is maintaining her and that no guardian or committee has been appointed for her, may cause any payment otherwise payable to her to be made to such person or institution so maintaining her. Payment to such person or institution shall be in full satisfaction of all claims by or through the Executive to the extent of the amount thereof.

SECTION 12Amendment and Termination of Agreement.

This Agreement shall not be amended or terminated other than by a writing signed by the Corporation and the Executive. The Agreement may be terminated and the Executive's accrued benefit paid to her in a single cash payment (i) within 12 months of a corporate dissolution of the Corporation taxed under Section 331 of the Code, or with the approval of a bankruptcy court pursuant to 11 U.S.C. 503(b)(1)(A), provided that the amounts deferred under the Agreement are paid to the Executive at the later of the calendar year in which the termination of the Agreement occurs, the first calendar year in which the payment is administratively practicable or the calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (ii) upon the agreement of the parties at any time so long as: (a) the Corporation terminates all other arrangements of the Corporation and its Related Entities that are treated as account balance plans as defined in Treasury Regulation Section 31.3121(v)(2)-1(c)(1)(ii)(A) (other than certain separation pay arrangements), (b) no payments other than payments that would be payable under the terms of the arrangements if the termination had not occurred are made within 12 months of the termination of the arrangements, (c) all payments are made within 24 months of the termination of the arrangements, (d) neither the Corporation nor its Related Entities adopt a new arrangement that would be treated as an account balance plan as defined in Treasury Regulation Section 31.3121(v)(2)-1(c)(1)(ii)(A) (other than certain separation pay arrangements) at any time within five years following the date of termination of the Agreement and (e) the Corporation and its Related Entities satisfy such other events and conditions as the Commissioner of the Internal Revenue Service may prescribe. The amount of any payment pursuant to this Section shall be based on the accumulated benefit obligation as of the date of payment, as determined by the Corporation's actuary in accordance with generally accepted accounting principles. This Section is intended to satisfy the plan termination rules of Treasury Regulation Section 1.409A-3(h)(2)(viii) and shall be interpreted accordingly. For purposes of this Agreement "Related Entity" means any entity that is part of a controlled group of corporations or is under common control with the Corporation within the meaning of Sections 1563(a), 414(b) or 414(c) of the Code.

SECTION 13Claims Procedure.

The following claims procedure shall apply with respect to this Agreement:

13.1 Filing of a claim for benefits. If the Executive or her beneficiary (the "claimant") believes that she is entitled to benefits under the Agreement which are not being paid to her or which are not being accrued for her benefit, she shall file a written claim therefor with the Compensation Committee within ninety (90) days of the date such benefits otherwise would have commenced (assuming the claimant is entitled to the benefits) or the claim will be forever barred.

13.2 Notification to claimant of decision.

(a) General. Within 90 days after receipt of a claim, other than a claim for benefits upon a disability, by the Compensation Committee (or within 180 days if special circumstances require an extension of time), the Compensation Committee shall notify the claimant in writing of its decision with regard to the claim. In the event of such special circumstances requiring an extension of time, there shall be furnished to the claimant prior to expiration of the initial 90-day period written notice of the extension, which notice shall set forth the special circumstances and the date by which the decision shall be furnished.

(b) Disability. Except as provided below, within 45 days after receipt of a disability claim by the Compensation Committee, the Compensation Committee shall notify the claimant in writing of its decision with regard to the claim (regardless of whether all the information necessary to make a benefit determination accompanies the claim) unless a 30-day extension is necessary due to matters beyond the control of the Compensation Committee. If such an extension is necessary, the Compensation Committee shall notify the claimant prior to the expiration of the initial 45-day period. If the Compensation Committee determines that a decision cannot be made within the first extension period due to matters beyond the control of the Compensation Committee, the time period for making a determination may be further extended for an additional 30 days. If such an additional extension is necessary, the Compensation Committee shall notify the claimant prior to the expiration of the first 30-day extension period. Any notice of an extension period shall indicate (i) the circumstances necessitating the extension of time, (ii) the date by which the Compensation Committee expects to furnish a notice of decision, (iii) the specific standards on which such entitlement to a benefit is based, (iv) the unresolved issues that prevent a decision on the claim and (v) any additional information needed to resolve those issues. A claimant will be provided a minimum of 45 days to submit any necessary additional information to the Compensation Committee. In the event that a 30-day extension is necessary due to a claimant's failure to submit information necessary to decide a claim under this subsection, the period for furnishing a notice of decision shall be tolled from the date on which the notice of the extension is sent to the claimant until the date the claimant responds to the request for additional information.

(c) Denial. If such claim shall be wholly or partially denied, notice thereof shall be in writing and worded in a manner calculated to be understood by the claimant, and shall set forth: (i) the specific reason or reasons for the denial; (ii) specific reference to pertinent provisions of the Agreement on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and (iv) an explanation of the procedure for review of the denial and the time limits applicable to such procedures, including the claimant's right to bring a civil action, to the extent permissible, following an adverse benefit determination on review. In addition to the information specified above, an adverse benefit determination concerning a disability claim shall also set forth, in a manner calculated to be understood by the claimant, (i) an explanation of any internal rule or guideline relied on to make the adverse determination, or (ii) a statement that a specific rule or guideline was relied upon and that a copy of the rule will be provided to the claimant free of charge upon request.

(d) Request for review. If a claim for benefits is denied in whole or in part, the claimant or her duly authorized representative may request in writing a full and fair review of the adverse benefit determination. The Compensation Committee may appoint a committee to review benefit claims, which must consider any denied claim that is submitted for review. If no committee is appointed, the Compensation Committee will process any valid request for review. The claims procedure must provide the claimant with (i) at least 60 days (180 days in the case of a Disability claim) following receipt of an adverse determination on which to appeal the determination, (ii) the opportunity to submit written comments, documents and records relating to the claim, (iii) reasonable access to and copies of documents and records relevant to the claim for benefits, upon request and free of charge, and (iv) a review taking into account all comments, documents, records and information submitted by the claimant relating to the claim, without regard to whether the information was submitted or considered in the initial benefit determination.

(e) Review of denied claims. The Compensation Committee must make a decision concerning the determination upon review of a denied claim within 60 days (45 days in the case of a disability claim) of receipt of a request for review. Under special circumstances, the review period may be extended for an additional 60 days (45 days in the case of a disability claim). If an extension is required, the Compensation Committee will provide the claimant with written notification of the special circumstances involved and the date by which the Compensation Committee expects to render a final decision.

(1) *Hearing*. The Compensation Committee or the committee appointed to review claims must determine whether there will be a hearing. A hearing must be scheduled to give sufficient time for this review and submission, giving notice of the schedule and deadlines for submission.

(2) *Review by Compensation Committee or committee*. If the Compensation Committee (or a committee if a one has been appointed) has regularly scheduled meetings at least quarterly, the rules in this subsection govern the time for the decision on review and supersede the rules described above. If the claimant's written

request for review is received more than 30 days before a meeting, a decision on review must be made at the next meeting after the request for review has been received. If the claimant's written request for review is received 30 days or less before a meeting of the Compensation Committee (or committee), the decision on review must be made at the Compensation Committee's (or committee's) second meeting after the request for review has been received. If an extension of time is required, written notice of the extension must be furnished to the claimant before the extension begins.

(3) *Disability claims*. The review shall be conducted by the Compensation Committee (exclusive of the person who made the initial adverse decision or such person's subordinate). In reviewing the appeal, the Compensation Committee shall (i) not afford deference to the initial denial of the claim, (ii) consult a medical professional who has appropriate training and experience in the field of medicine relating to the claimant's disability and who was neither consulted as part of the initial denial nor is the subordinate of such individual and (iii) identify the medical or vocational experts whose advice was obtained with respect to the initial benefit denial, without regard to whether the advice was relied upon in making the decision. If a claim is denied due to a medical judgment, the reviewer will consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The health care professional consulted will not be the same person consulted in connection with the initial benefit decision (nor be the subordinate of that person). The decision on review also will identify any medical or vocational experts who advised the Compensation Committee in connection with the original benefit decision, even if the advice was not relied upon in making the decision.

(f) Notification on review. If a request for review is wholly or partially denied, the Compensation Committee must give written or electronic notice to the claimant within the time provided in subsection (e). The notice must contain the information detailed in subsection (c). If the notification concerns the denial of a disability claim, the notice must also contain; (i) a statement describing any voluntary appeal procedures offered by the Agreement and the claimant's right to obtain information about such procedures, and (ii) a statement that the claimant may have other voluntary alternative dispute resolution options, such as mediation.

(g) Determinations are binding. All good-faith determinations by the Compensation Committee are conclusive and binding on all persons, and there is no right of appeal except as provided above. Any electronic notification shall comply with the standards imposed by Department of Labor Regulation 2520.104b-1(c).

13.3 Arbitration. If a dispute remains following the decision of the Compensation Committee under Section 13.2, the issue or issues in dispute shall be settled and finally determined by arbitration in Winston-Salem, North Carolina, under the then existing rules of the American Arbitration Association; and judgment may be entered upon the award of the arbitrator by any Court of competent jurisdiction. The standard of review for such arbitration shall be denovo; therefore, discretion granted to the Compensation Committee by any other provision of this Agreement shall be disregarded, and there shall be no presumption in favor of any decision made by the Compensation Committee. If the Executive disagrees with the final decision of the Compensation Committee under Section 13.2, Executive must file the request for arbitration within ninety (90) days of the Compensation Committee's final decision pursuant to Section 13.2 or the Compensation Committee's decision shall be final and any further claim forever barred. Any expenses of such arbitration shall be allocated among the parties to this Agreement by the arbitrator.

13.4 Action by authorized representative of claimant. All actions set forth in this Section 13 to be taken by the claimant may likewise be taken by a representative of the claimant duly authorized by her to act in her behalf on such matters. The Compensation Committee may require such evidence as either may reasonably deem necessary or advisable of the authority to act of any such representative.

SECTION 14Miscellaneous Provisions.

14.1 Notices. The Executive and each beneficiary shall be responsible for furnishing the Compensation Committee or its designee with their current address for the mailing of notices and benefit payments. Any notice required or permitted to be given to the Executive or a beneficiary shall be deemed given if directed to such address and mailed by regular United States mail, first class, postage prepaid. If any check mailed to such address is returned as undeliverable to the addressee, mailing of checks will be suspended until the Executive or beneficiary furnishes the proper address. This provision shall not be construed as requiring the mailing of any notice or notification otherwise permitted to be given by posting or by other publication.

14.2 Lost distributees. A benefit shall be deemed forfeited if the Compensation Committee is unable after a reasonable period of time to locate the Executive or her beneficiary to whom payment is due; provided, however, that such benefit shall be reinstated if a valid claim is made by or on behalf of the Executive or her beneficiary for the forfeited benefit no later than ninety (90) days after the date such benefits otherwise would have commenced (assuming the claimant is entitled to the benefits) or the claim will be forever barred.

14.3 Reliance on data. The Corporation and the Compensation Committee shall have the right to rely on any data provided by the Executive or by any beneficiary. Representations of such data shall be binding upon any party seeking to claim a benefit through an Executive, and the Corporation and the Compensation Committee shall have no obligation to inquire into the accuracy of any representation made at any time by the Executive or her beneficiary.

14.4 Receipt and release for payments. Any payment made from the Corporation to or with respect to the Executive or her beneficiary, or pursuant to a disclaimer by a beneficiary, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Corporation with respect to the Agreement. The recipient of any payment may be required by the Compensation Committee, as a condition precedent to such payment, to execute a receipt and release with respect thereto in such form as shall be acceptable to the Compensation Committee.

14.5 Withholding. The Corporation shall withhold from any payments or benefits under this Agreement, or shall otherwise obtain payment from Executive for, all federal, state, or local taxes or other amounts as shall be required pursuant to any law or governmental regulation or ruling.

14.6 Headings. The headings and subheadings of the Agreement have been inserted for convenience of reference and are to be ignored in any construction of the provisions hereof.

14.7 Continuation of employment. The establishment of the Agreement shall not be construed as conferring any legal or other rights upon the Executive or any persons for continuation of employment or any right to receive or continue to receive any rate of pay or other compensation, nor shall it interfere with the right of the Corporation to discharge the Executive or to deal with her without regard to the effect thereof under the Agreement.

14.8 Binding on successors. The obligations of the parties hereto shall inure to the benefit of and shall be binding upon their successors and assigns, including any successor to the Corporation by merger, consolidation or otherwise that may agree to continue this Agreement.

14.9 Construction. The provisions of the Agreement shall be construed and enforced according to the laws of the State of North Carolina.

14.10 Compliance. No benefits shall be paid hereunder except in compliance with all applicable laws and regulations (including, without limitation, withholding tax requirements), any listing agreement with any stock exchange to which the Corporation is a party, and the rules of all domestic stock exchanges on which the Corporation's shares of capital stock may be listed. The Corporation shall have the right to rely on an opinion of its counsel as to such compliance. No benefits shall be paid hereunder unless the Corporation has obtained such consent or approval as the Corporation may deem advisable from regulatory bodies having jurisdiction over such matters.

14.11 Confidentiality. The terms and conditions of this Agreement and the Executive's participation hereunder shall remain strictly confidential. The Executive may not discuss or disclose any terms of this Agreement or its benefits with anyone except for Executive's attorneys, accountants and immediate family members who shall be instructed to maintain the confidentiality agreed to under this Agreement, except as may be required by law.

SECTION 15Application of Section 409A.

15.1 Compliance. This Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be construed and interpreted in accordance therewith. Notwithstanding the preceding, the Corporation and its Related Entities shall not be liable to the Executive or any other person if the Internal Revenue Service or any court or other authority having jurisdiction over such matter determines for any reason that any amount under this Agreement is subject to taxes, penalties or interest as a result of failing to comply with Section 409A of the Code.

15.2 Separation from service. Notwithstanding any other provision of this Agreement, the Executive will not be entitled to payment upon her termination of employment pursuant to this Agreement unless the Executive has terminated employment with the Corporation and all of its Related Entities and otherwise had a "separation from service" as defined below. For purposes of this Agreement, "separation from service" means the termination of the Executive's employment with the Corporation and all Related Entities; provided, however, that the Executive will not be considered as having had a separation from service if (i) the Executive continues to provide services to the Corporation or any of its Related Entities as an employee or otherwise at an annual rate that is at least equal to 50 percent of the services rendered, on average, during the immediately preceding three full calendar years of employment (or, if employed less than three years, such lesser period) and the annual remuneration for such services is at least equal to 50 percent of the average annual remuneration earned during the final three full calendar years of employment (or if less, such lesser period), or (ii) the Executive is on military leave, sick leave or other bona fide leave of absence (such as temporary employment by the government) so long as the period of such leave does not exceed six months, or if longer, so long as the Executive's right to reemployment with the Corporation or any Related Entity is provided either by statute or by contract. If the period of leave exceeds six months and the Executive's right to reemployment is not provided either by statute or by contract, the separation from service will be deemed to occur on the first date immediately following such six-month period. For purposes of this Section, the annual rate of providing services shall be determined based upon the measurement used to determine the Executive's base compensation. This definition of separation from service is intended to comply with the definition of "separation from service" as used in Section 409A(a)(2)(A)(i) of the Code and shall be interpreted accordingly.

15.3 Specified employee. Notwithstanding any other provision of this Agreement, if the Executive is a "specified employee" (as defined below), and if the Executive's benefits hereunder are paid upon a Separation from Service then, to the extent necessary to comply with Section 409A of the Code, no payments may be made hereunder before the date which is six months after the Executive's separation from service or, if earlier, her death. All such amounts, which would have otherwise been required to be paid during such six months or, if earlier, Executive's death, shall be paid to Executive in one lump sum payment as soon as administratively practical after the date which is six months after Executive's separation from service or, if earlier, Executive's death. Any other payments scheduled to be made after such period shall be made at the times otherwise designated in this Agreement disregarding the delay for payments required herein. For purposes of this Agreement, "specified employee" generally means an employee who is (i) an officer of the Corporation or any of its Related Entities having annual compensation greater than $140,000 (with certain adjustments for inflation after 2006), (ii) a five-percent owner of the Corporation or (iii) a one-percent owner of the Corporation having annual compensation greater than $150,000. This definition is intended to comply with the specified employee rules of Section 409A(a)(2)(B)(i) of the Code and shall be interpreted accordingly.

IN WITNESS WHEREOF, this Amended and Restated Retirement Security Agreement is executed by and in behalf of the parties hereto as the day and year first above written.

INSTEEL INDUSTRIES, INC.

By: /s/ H.O. Woltz III

President

Attest:

/s/ James F. Petelle

Secretary

[Corporate Seal]

EXECUTIVE

By: /s/ Elizabeth C. Southern (SEAL)

Elizabeth C. Southern

Exhibit 31.1

CERTIFICATION

I, H.O. Woltz III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended July 1, 2023 December 30, 2023 of Insteel Industries Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 20, 2023 January 18, 2024

/s/ H. O. Woltz III
H. O. Woltz III
President, Chief Executive Officer and Chairman of the Board

Exhibit 31.2

CERTIFICATION

CERTIFICATION

I, Scot R. Jafroodi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended July 1, 2023 December 30, 2023 of Insteel Industries Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 20, 2023 January 18, 2024

/s/ Scot R. Jafroodi
Scot R. Jafroodi
Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Insteel Industries Inc. (the "Company") for the period ended July 1, 2023 December 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. O. Woltz III, President, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ /s/ H.O. Woltz III

H.O. Woltz III

President, Chief Executive Officer and Chairman of the Board

July 20, 2023 January 18, 2024

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Insteel Industries Inc. (the "Company") for the period ended July 1, 2023 December 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scot R. Jafroodi, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ /s/ Scot R. Jafroodi

Scot R. Jafroodi

Vice President, Chief Financial Officer and Treasurer

July 20, 2023 January 18, 2024

DISCLAIMER

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