

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 March 30, 2024.

or

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

For the transition period from ____ to ____.

Commission File Number: 1-09929

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)	IILN	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)

19,475,061

Title of Class

Number of Shares Outstanding as of April 24, 2024

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	Unaudited Financial Statements	
	Consolidated Statements of Operations and Comprehensive Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Consolidated Statements of Shareholders' Equity	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4.	Controls and Procedures	20

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	21
Item 1A.	Risk Factors	21
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 5.	Other Information	21
Item 6.	Exhibits	22
SIGNATURES		23

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		Six Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
Net sales	\$ 127,394	\$ 159,051	\$ 249,119	\$ 325,950
Cost of sales	111,679	145,789	227,134	294,902
Gross profit	15,715	13,262	21,985	31,048
Selling, general and administrative expense	7,875	7,506	14,242	14,632
Other expense (income), net	9	(57)	(13)	(3,399)
Interest expense	28	23	57	47
Interest income	(1,147)	(747)	(2,806)	(1,187)
Earnings before income taxes	8,950	6,537	10,505	20,955
Income taxes	2,011	1,436	2,434	4,731
Net earnings	<u>\$ 6,939</u>	<u>\$ 5,101</u>	<u>\$ 8,071</u>	<u>\$ 16,224</u>
Net earnings per share:				
Basic	\$ 0.36	\$ 0.26	\$ 0.41	\$ 0.83
Diluted	0.35	0.26	0.41	0.83
Weighted average shares outstanding:				
Basic	19,508	19,503	19,503	19,514
Diluted	19,594	19,562	19,584	19,573
Cash dividends declared per share	\$ 0.03	\$ 0.03	\$ 2.56	\$ 2.06
Comprehensive income	<u>\$ 6,939</u>	<u>\$ 5,101</u>	<u>\$ 8,071</u>	<u>\$ 16,224</u>

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	(Unaudited) March 30, 2024	September 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 83,945	\$ 125,670
Accounts receivable, net	55,549	63,424
Inventories	92,530	103,306
Other current assets	7,675	6,453
Total current assets	239,699	298,853
Property, plant and equipment, net	127,534	120,014
Intangibles, net	5,716	6,090
Goodwill	9,745	9,745
Other assets	14,533	12,811
Total assets	<u>\$ 397,227</u>	<u>\$ 447,513</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 25,409	\$ 34,346
Accrued expenses	7,975	11,809
Total current liabilities	33,384	46,155
Other liabilities	23,222	19,853
Commitments and contingencies		
Shareholders' equity:		
Common stock	19,467	19,454
Additional paid-in capital	85,332	83,832
Retained earnings	236,105	278,502
Accumulated other comprehensive loss	(283)	(283)
Total shareholders' equity	340,621	381,505
Total liabilities and shareholders' equity	<u>\$ 397,227</u>	<u>\$ 447,513</u>

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	March 30, 2024	April 1, 2023
Cash Flows From Operating Activities:		
Net earnings	\$ 8,071	\$ 16,224
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,575	6,573
Amortization of capitalized financing costs	26	32
Stock-based compensation expense	1,395	1,113
Deferred income taxes	2,769	(1,479)
Loss (gain) on sale and disposition of property, plant and equipment	24	(3,324)
Increase in cash surrender value of life insurance policies over premiums paid	(1,058)	(732)
Net changes in assets and liabilities:		
Accounts receivable, net	7,875	15,772
Inventories	10,776	61,162
Accounts payable and accrued expenses	(12,859)	(19,451)
Other changes	(1,383)	3,681
Total adjustments	15,140	63,347
Net cash provided by operating activities	23,211	79,571
Cash Flows From Investing Activities:		
Capital expenditures	(14,225)	(15,400)
Increase in cash surrender value of life insurance policies	(369)	(327)
Proceeds from sale of property, plant and equipment	3	9,920
Proceeds from surrender of life insurance policies	5	343
Net cash used for investing activities	(14,586)	(5,464)
Cash Flows From Financing Activities:		
Proceeds from long-term debt	134	142
Principal payments on long-term debt	(134)	(142)
Cash dividends paid	(49,775)	(40,085)
Payment of employee tax withholdings related to net share transactions	(161)	(187)
Cash received from exercise of stock options	428	94
Financing costs	-	(164)
Repurchases of common stock	(842)	(1,925)
Net cash used for financing activities	(50,350)	(42,267)
Net (decrease) increase in cash and cash equivalents	(41,725)	31,840
Cash and cash equivalents at beginning of period	125,670	48,316
Cash and cash equivalents at end of period	<u>\$ 83,945</u>	<u>\$ 80,156</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Income taxes, net	\$ 724	\$ 4,132
Non-cash investing and financing activities:		
Purchases of property, plant and equipment in accounts payable	1,824	2,123
Restricted stock units and stock options surrendered for withholding taxes payable	161	187

See accompanying notes to consolidated financial statements.

INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-In	Earnings	Other	Shareholders'
			Capital		Comprehensive	Equity
					Loss	
For the three and six months ended March 30, 2024						
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
Net earnings				6,939		6,939
Stock options exercised, net	4	4	114			118
Vested and released restricted stock units	24	24	(24)			-
Compensation expense associated with stock-based plans			997			997
Repurchases of common stock	(9)	(9)	(39)	(255)		(303)
Restricted stock units and stock options surrendered for withholding taxes payable			(141)			(141)
Cash dividends declared				(584)		(584)
Balance at March 30, 2024	19,467	\$ 19,467	\$ 85,332	\$ 236,105	\$ (283)	\$ 340,621
For the three and six months ended April 1, 2023						
Balance at October 1, 2022	19,478	\$ 19,478	\$ 81,997	\$ 289,246	\$ (977)	\$ 389,744
Net earnings				11,123		11,123
Stock options exercised, net	5	5	89			94
Compensation expense associated with stock-based plans			130			130
Repurchases of common stock	(32)	(32)	(134)	(750)		(916)
Cash dividends declared				(39,501)		(39,501)
Balance at December 31, 2022	19,451	19,451	82,082	260,118	(977)	360,674
Net earnings				5,101		5,101
Vested and released 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

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 September 30, 2023 ("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 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 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

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 additional measures of a segment's profit or 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 first quarter of fiscal 2026 for interim reporting. Retrospective application is required for all prior periods presented in the financial statements. We are currently evaluating the impact of the ASU on our disclosures within the consolidated financial 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		Six Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
<i>(In thousands)</i>				
Welded wire reinforcement	\$ 69,750	\$ 91,378	\$ 138,552	\$ 187,346
Prestressed concrete strand	57,644	67,673	110,567	138,604
Total	<u>\$ 127,394</u>	<u>\$ 159,051</u>	<u>\$ 249,119</u>	<u>\$ 325,950</u>

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 March 30, 2024, and 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 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 March 30, 2024, and September 30, 2023, we held financial assets that are required to be measured at fair value on a recurring basis, which are summarized below:

<i>(In thousands)</i>	Total	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)
As of March 30, 2024:			
Current assets:			
Cash equivalents	\$ 80,232	\$ 80,232	\$ -
Other assets:			
Cash surrender value of life insurance policies	12,008	-	12,008
Total	<u>\$ 92,240</u>	<u>\$ 80,232</u>	<u>\$ 12,008</u>
As of September 30, 2023:			
Current assets:			
Cash equivalents	\$ 125,805	\$ 125,805	\$ -
Other assets:			
Cash surrender value of life insurance policies	10,586	-	10,586
Total	<u>\$ 136,391</u>	<u>\$ 125,805</u>	<u>\$ 10,586</u>

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 March 30, 2024, and 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:

<i>(In thousands)</i>	Weighted-Average Useful Life (Years)	Gross	Accumulated Amortization	Net Book Value
As of March 30, 2024:				
Customer relationships	17.1	\$ 9,870	\$ (5,103)	\$ 4,767
Developed technology and know-how	20.0	1,800	(863)	937
Non-competition agreements	5.0	60	(48)	12
		<u>\$ 11,730</u>	<u>\$ (6,014)</u>	<u>\$ 5,716</u>
As of September 30, 2023:				
Customer relationships	17.1	\$ 9,870	\$ (4,779)	\$ 5,091
Developed technology and know-how	20.0	1,800	(818)	982
Non-competition agreements	5.0	400	(383)	17
		<u>\$ 12,070</u>	<u>\$ (5,980)</u>	<u>\$ 6,090</u>

Amortization expense for intangibles was \$187,000 for each of the three-month periods ended March 30, 2024, and April 1, 2023, and \$ 374,000 and \$382,000 for the six-month periods ended March 30, 2024, and April 1, 2023, respectively. Amortization expense for the next five years is \$ 376,000 in 2024, \$743,000 in 2025, \$752,000 in 2026, \$480,000 in 2027, \$453,000 in 2028 and \$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 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 March 30, 2024, there were 362,000 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 \$440,000 and \$439,000 for the three-month periods ended March 30, 2024, and April 1, 2023, respectively, and \$593,000 and \$475,000 for the six-month periods ended March 30, 2024, and April 1, 2023, respectively. As of March 30, 2024, there was \$745,000 of unrecognized compensation cost related to unvested options which is expected to be recognized over a weighted average period of 2.09 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 September 30, 2023	411	\$ 30.68		
Granted	46	34.75		
Forfeited	(8)	41.86		
Exercised	(38)	30.79		\$ 194
Outstanding at March 30, 2024	411	30.91	7.13	3,183
Vested and anticipated to vest in the future at March 30, 2024	403	30.86	7.09	3,138
Exercisable at March 30, 2024	246	29.41	5.81	2,313

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 \$557,000 and \$544,000 for the three-month periods ended March 30, 2024, and April 1, 2023, respectively, and \$802,000 and \$638,000 for the six-month periods ended March 30, 2024 and April 1, 2023, respectively.

As of March 30, 2024, there was \$1.4 million of unrecognized compensation cost related to unvested RSUs which is expected to be recognized over a weighted average period of 1.64 years.

The following table summarizes RSU activity:

(Unit amounts in thousands)	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance, September 30, 2023	105	\$ 35.07
Granted	30	34.75
Vested	(28)	29.87
Balance, March 30, 2024	107	34.01

(7) Income Taxes

Effective income tax rate. Our effective income tax rate was 23.2% for the six-month period ended March 30, 2024, compared with 22.6% for the six-month period ended April 1, 2023. 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.

Deferred income taxes. As of March 30, 2024, and September 30, 2023, we recorded a deferred tax liability (net of valuation allowance) of \$10.3 million and \$7.5 million, respectively, in other liabilities on our consolidated balance sheets. We have \$31,000 of state net operating loss carryforwards (“NOLs”) that expire in 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 March 30, 2024, and September 30, 2023, we recorded a valuation allowance of \$149,000 and \$3,000, respectively, pertaining to various 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.

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 March 30, 2024, 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 after 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		Six Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
(In thousands)				
Interest cost	\$ 147	\$ 130	\$ 294	\$ 260
Service cost	63	83	126	166
Recognized net actuarial loss	-	3	-	6
Net periodic pension cost	<u>\$ 210</u>	<u>\$ 216</u>	<u>\$ 420</u>	<u>\$ 432</u>

(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 March 30, 2024, no borrowings were outstanding on the Credit Facility, \$98.5 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 March 30, 2024, 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 March 30, 2024, 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 March 30, 2024, and April 1, 2023, respectively, and \$26,000 and \$32,000 for the six-month periods ended March 30, 2024 and April 1, 2023, respectively.

(10) Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	March 30, 2024	April 1, 2023	March 30, 2024	April 1, 2023
<i>(In thousands, except per share amounts)</i>				
Net earnings	\$ 6,939	\$ 5,101	\$ 8,071	\$ 16,224
Basic weighted average shares outstanding	19,508	19,503	19,503	19,514
Dilutive effect of stock-based compensation	86	59	81	59
Diluted weighted average shares outstanding	<u>\$ 19,594</u>	<u>\$ 19,562</u>	<u>\$ 19,584</u>	<u>\$ 19,573</u>
Net earnings per share:				
Basic	<u>\$ 0.36</u>	<u>\$ 0.26</u>	<u>\$ 0.41</u>	<u>\$ 0.83</u>
Diluted	<u>\$ 0.35</u>	<u>\$ 0.26</u>	<u>\$ 0.41</u>	<u>\$ 0.83</u>

Options and RSUs that were antidilutive and not included in the dilutive earnings per share calculation amounted to 22,000 and 70,000 shares for the three-month periods ended March 30, 2024, and April 1, 2023, respectively, and 31,000 and 82,000 shares for the six-month periods ended March 30, 2024, and April 1, 2023, 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 \$303,000 or 8,859 shares and \$1.0 million or 34,459 shares of its common stock during the three-month periods ended March 30, 2024, and April 1, 2023, respectively, and \$842,000 or 27,935 shares and \$1.9 million or 66,113 shares of its common stock during the six-month periods ended March 30, 2024, and April 1, 2023, respectively. As of March 30, 2024, there was \$ 20.4 million remaining available for future share repurchases under this Authorization.

(12) Other Financial Data

Balance sheet information:

<i>(In thousands)</i>	March 30, 2024	September 30, 2023
Accounts receivable, net:		
Accounts receivable	\$ 55,973	\$ 63,735
Less allowance for credit losses	(424)	(311)
Total	<u>\$ 55,549</u>	<u>\$ 63,424</u>
Inventories:		
Raw materials	\$ 37,307	\$ 39,341
Work in process	6,028	5,852
Finished goods	49,195	58,113
Total	<u>\$ 92,530</u>	<u>\$ 103,306</u>
Other current assets:		
Prepaid insurance	\$ 3,874	\$ 4,043
Income tax receivable	872	-
Other	2,929	2,410
Total	<u>\$ 7,675</u>	<u>\$ 6,453</u>
Other assets:		
Cash surrender value of life insurance policies	\$ 12,008	\$ 10,586
Right-of-use asset	2,266	1,939
Capitalized financing costs, net	150	175
Other	109	111
Total	<u>\$ 14,533</u>	<u>\$ 12,811</u>
Property, plant and equipment, net:		
Land and land improvements	\$ 15,291	\$ 15,107
Buildings	56,969	56,653
Machinery and equipment	216,033	198,528
Construction in progress	13,428	18,019
	<u>301,721</u>	<u>288,307</u>
Less accumulated depreciation	(174,187)	(168,293)
Total	<u>\$ 127,534</u>	<u>\$ 120,014</u>
Accrued expenses:		
Salaries, wages and related expenses	\$ 2,517	\$ 5,082
Sales allowance reserves	2,193	745
Operating lease liability	1,072	999
Customer rebates	778	2,132
Property taxes	697	1,912
State sales and use taxes	236	268
Income taxes	-	187
Other	482	484
Total	<u>\$ 7,975</u>	<u>\$ 11,809</u>
Other liabilities:		
Deferred compensation	\$ 11,727	\$ 11,374
Deferred income taxes	10,312	7,543
Operating lease liability	1,183	936
Total	<u>\$ 23,222</u>	<u>\$ 19,853</u>

(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 September 30, 2023 (our "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:

- 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 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 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			Six Months Ended		
	March 30, 2024	Change	April 1, 2023	March 30, 2024	Change	April 1, 2023
Net sales	\$ 127,394	(19.9%)	\$ 159,051	\$ 249,119	(23.6%)	\$ 325,950
Gross profit	15,715	18.5%	13,262	21,985	(29.2%)	31,048
<i>Percentage of net sales</i>	<i>12.3%</i>		<i>8.3%</i>	<i>8.8%</i>		<i>9.5%</i>
Selling, general and administrative expense	\$ 7,875	4.9%	\$ 7,506	\$ 14,242	(2.7%)	\$ 14,632
<i>Percentage of net sales</i>	<i>6.2%</i>		<i>4.7%</i>	<i>5.7%</i>		<i>4.5%</i>
Other expense (income), net	\$ 9	N/M	\$ (57)	\$ (13)	N/M	\$ (3,399)
Interest income	(1,147)	53.5%	(747)	(2,806)	136.4%	(1,187)
Effective income tax rate	22.5%		22.0%	23.2%		22.6%
Net earnings	\$ 6,939	36.0%	\$ 5,101	\$ 8,071	(50.3%)	\$ 16,224

"N/M" = not meaningful

Second Quarter of Fiscal 2024 Compared to Second Quarter of Fiscal 2023

Net Sales

Net sales for the second quarter of 2024 decreased 19.9% to \$127.4 million from \$159.1 million in the prior year quarter, reflecting a 17.3% decrease in average selling prices and a 3.2% decline in shipments. The decrease in average selling prices was driven by competitive pricing pressures and the impact of low-priced import competition. Shipments for the current quarter were unfavorably impacted by competitive pressure, weakness in the commercial construction market and adverse weather conditions that reduced construction activity.

Gross Profit

Gross profit for the second quarter of 2024 increased 18.5% to \$15.7 million, or 12.3% of net sales, from \$13.3 million, or 8.3% of net sales, in the prior year quarter due to higher spreads between average selling prices and raw material costs (\$2.9 million) partially offset by a decrease in shipments (\$413,000) and higher manufacturing costs (\$64,000). The increase in spreads was driven by lower raw material costs (\$29.4 million) partially offset by lower average selling prices (\$26.5 million).

Selling, General and Administrative Expense

Selling, general and administrative expense ("SG&A expense") for the second quarter of 2024 increased 4.9% to \$7.9 million, or 6.2% of net sales, from \$7.5 million, or 4.7% of net sales, in the prior year quarter primarily due to higher depreciation (\$187,000), bad debt (\$127,000) and employee benefit expense (\$110,000) partially offset by a decrease in compensation expense (\$279,000). The increase in depreciation expense was attributed to higher capital expenditures during the current year. The higher bad debt expense resulted from adjustments to customer credit reserves. The increase in employee benefit expense was primarily related to higher employee health insurance costs in the current year quarter. The decrease in compensation expense was primarily driven by lower incentive plan expense due to a decline in financial results.

Interest Income

Interest income increased \$400,000 from the prior year quarter due to an increase in cash and higher average interest rates.

Income Taxes

Our effective tax rate for the second quarter of 2024 increased to 22.5% from 22.0% for the prior year quarter primarily due to changes in book versus tax differences.

Net Earnings

Net earnings for the second quarter of 2024 increased to \$6.9 million (\$0.35 per diluted share) from \$5.1 million (\$0.26 per share) in the prior year quarter primarily due to the increases in gross profit and interest income partially offset by higher SG&A expense.

First Half of Fiscal 2024 Compared to First Half of Fiscal 2023

Net Sales

Net sales for the first half of 2024 decreased 23.6% to \$249.1 million from \$325.9 million in the same year-ago period, reflecting a 22.4% decrease in average selling prices and a 1.6% decline in shipments. The decrease in average selling prices was driven by competitive pricing pressures and the impact of low-priced import competition. The decline in shipments was due to competitive pressure, weakness in the commercial construction market and adverse weather conditions.

Gross Profit

Gross profit for the first half of 2024 decreased 29.2% to \$22.0 million, or 8.8% of net sales, from \$31.0 million, or 9.5% 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 (\$7.8 million) along with higher manufacturing costs (\$665,000) and a decrease in shipments (\$605,000). The decrease in spreads was driven by lower average selling prices (\$71.4 million) partially offset by lower raw material costs (\$63.4 million) and freight expense (\$208,000).

Selling, General and Administrative Expense

SG&A expense for the first half of 2024 decreased 2.7% to \$14.2 million, or 5.7% of net sales, from \$14.6 million, or 4.5% of net sales, in the same year-ago period primarily due to lower compensation expense (\$953,000) and the relative year-over-year changes in the cash surrender value of life insurance policies (\$326,000) partially offset by higher bad debt (\$191,000), legal (\$187,000) and depreciation expense (\$181,000). 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 \$1.1 million in the current year period compared to \$732,000 in the prior year period due to the corresponding changes in the value of the underlying investments.

Other Income, net

Other income for the first half of 2024 decreased \$3.4 million from the prior year period. Other income of \$3.4 million for the first half 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 \$1.6 million due to an increase in cash and higher average interest rates.

Income Taxes

Our effective tax rate for the first half of 2024 increased to 23.2% from 22.6% for the same year-ago period primarily due to changes in book versus tax differences.

Net Earnings

Net earnings for the first half of 2024 decreased to \$8.1 million (\$0.41 per share) from \$16.2 million (\$0.83 per share) in the same year-ago period primarily due to the decrease in gross profit and other income partially offset by lower SG&A expense and higher interest income.

Liquidity and Capital Resources

Selected Financial Data (Dollars in thousands)

	Six Months Ended	
	March 30, 2024	April 1, 2023
Net cash provided by operating activities	\$ 23,211	\$ 79,571
Net cash used for investing activities	(14,586)	(5,464)
Net cash used for financing activities	(50,350)	(42,267)
Net working capital	206,315	242,790
Total debt	-	-
Percentage of total capital	-	-
Shareholders' equity	\$ 340,621	\$ 364,978
Percentage of total capital	100.0%	100.0%
Total capital (total debt + shareholders' equity)	\$ 340,621	\$ 364,978

Operating Activities

Operating activities provided \$23.2 million of cash during the first half of 2024 primarily from net earnings adjusted for non-cash items together with a net decrease in working capital. Working capital provided \$5.8 million of cash due to a \$10.8 million decrease in inventories and a \$7.9 million reduction in accounts receivable partially offset by a \$12.9 million decrease in accounts payable and accrued expenses. The decrease in inventories was primarily due to lower average unit costs. The decrease in accounts receivable was largely driven by the decrease in shipments and 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 and a reduction in accrued salaries, wages and related expenses.

Operating activities provided \$79.6 million of cash during the first half of 2023 primarily from net earnings adjusted for non-cash items together with a net decrease in working capital. Working capital provided \$57.5 million of cash due to a \$61.2 million decrease in inventories and a \$15.8 million reduction in accounts receivable partially offset by a \$19.5 million decrease in accounts payable and accrued expenses. The decrease in inventories was primarily due to lower raw material purchases along with lower average unit costs. The decrease in accounts receivable was largely driven by the decrease in shipments and lower average selling prices. The decrease in accounts payable and accrued expenses was largely due to lower raw material purchases during the 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 \$14.6 million of cash during the first half of 2024 compared to \$5.5 million during the prior year period primarily due to the decreased receipt of proceeds from the sale of property, plant and equipment (\$9.9 million) partially offset by lower capital expenditures (\$1.2 million). Capital expenditures decreased to \$14.2 million from \$15.4 million in the prior year period and are expected to total up to approximately \$30.0 million for fiscal 2024. Capital expenditures for fiscal 2024 are to support costs and productivity initiatives, modernize our facilities and information systems, advance the growth of our engineered structural mesh business and 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 \$50.4 million of cash during the first half of 2024 compared to \$42.3 million during the prior year period. During the first half of 2024, \$49.8 million of cash was used for dividend payments (including a special dividend of \$48.6 million, or \$2.50 per share, and regular quarterly dividends totaling \$1.2 million, or \$0.06 per share) and \$842,000 for the repurchase of common stock. During the first half of 2023, \$40.1 million of cash was used for dividend payments (including a special dividend of \$38.9 million, or \$2.00 per share, and regular quarterly dividends totaling \$1.2 million, or \$0.06 per share) and \$1.9 million for the repurchase of common stock.

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 March 30, 2024, no borrowings were outstanding on the Credit Facility, \$98.5 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 Cyclical

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. Inflation did not have a material impact on our sales or earnings during the second fiscal quarter of 2024. 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 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 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 2023 Annual Report for further information regarding our critical accounting policies and estimates. As of March 30, 2024, 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 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 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 second half of the fiscal year, we anticipate growing momentum across our business driven by the seasonal upturn in construction activity and stronger market fundamentals. Customer sentiment remains mostly positive, and the macroeconomic outlook is improving with the apparent end of the 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 increase demand as we progress through the 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, broadening our product line 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 half of 2024, a 10% increase in the price of wire rod would have resulted in a \$15.3 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 March 30, 2024, 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 March 30, 2024.

Item 4. Controls and Procedures

We have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of March 30, 2024. 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 March 30, 2024, 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 March 30, 2024, there have been no material changes from the risk factors set forth under Part I, Item 1A. “Risk Factors” in our 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 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 March 30, 2024.

	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
(In thousands except share and per share amounts)				
For the three months ended March 30, 2024				
December 31, 2023 - February 3, 2024	3,500	\$ 33.86	3,500	\$ 20,567(1)
February 4, 2024 - March 2, 2024	4,685	34.33	4,685	20,407(1)
March 3, 2024 - March 30, 2024	674	34.46	674	20,383(1)
	8,859		8,859	

- (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 March 30, 2024, 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.

Item 6. Exhibits

- 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 March 30, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations and Comprehensive Income for the three and six months ended March 30, 2024, and April 1, 2023, (ii) the Consolidated Balance Sheets as of March 30, 2024, and September 30, 2023, (iii) the Consolidated Statements of Cash Flows for the six months ended March 30, 2024, and April 1, 2023, (iv) the Consolidated Statements of Shareholders' Equity for the three and six months ended March 30, 2024, and April 1, 2023, and (v) the Notes to Consolidated Financial Statements.
- 104 The cover page from our Quarterly Report on Form 10-Q for the quarter ended March 30, 2024, formatted in iXBRL and contained in Exhibit 101.

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: April 25, 2024

By: /s/ Scot R. Jafroodi

Scot R. Jafroodi
Vice President, Chief Financial Officer and Treasurer
(Duly Authorized Officer and Principal Financial Officer)

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 30, 2024 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: April 25, 2024

/s/ H. O. Woltz III

H. O. Woltz III

President, Chief Executive Officer and Chairman of the Board

CERTIFICATION

I, Scot R. Jafroodi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 30, 2024 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: April 25, 2024

/s/ Scot R. Jafroodi

Scot R. Jafroodi

Vice President, Chief Financial Officer and Treasurer

**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 March 30, 2024 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/ H.O. Woltz III

H.O. Woltz III
President, Chief Executive Officer and Chairman of the Board
April 25, 2024

**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 March 30, 2024 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/ Scot R. Jafroodi

Scot R. Jafroodi
Vice President, Chief Financial Officer and Treasurer
April 25, 2024