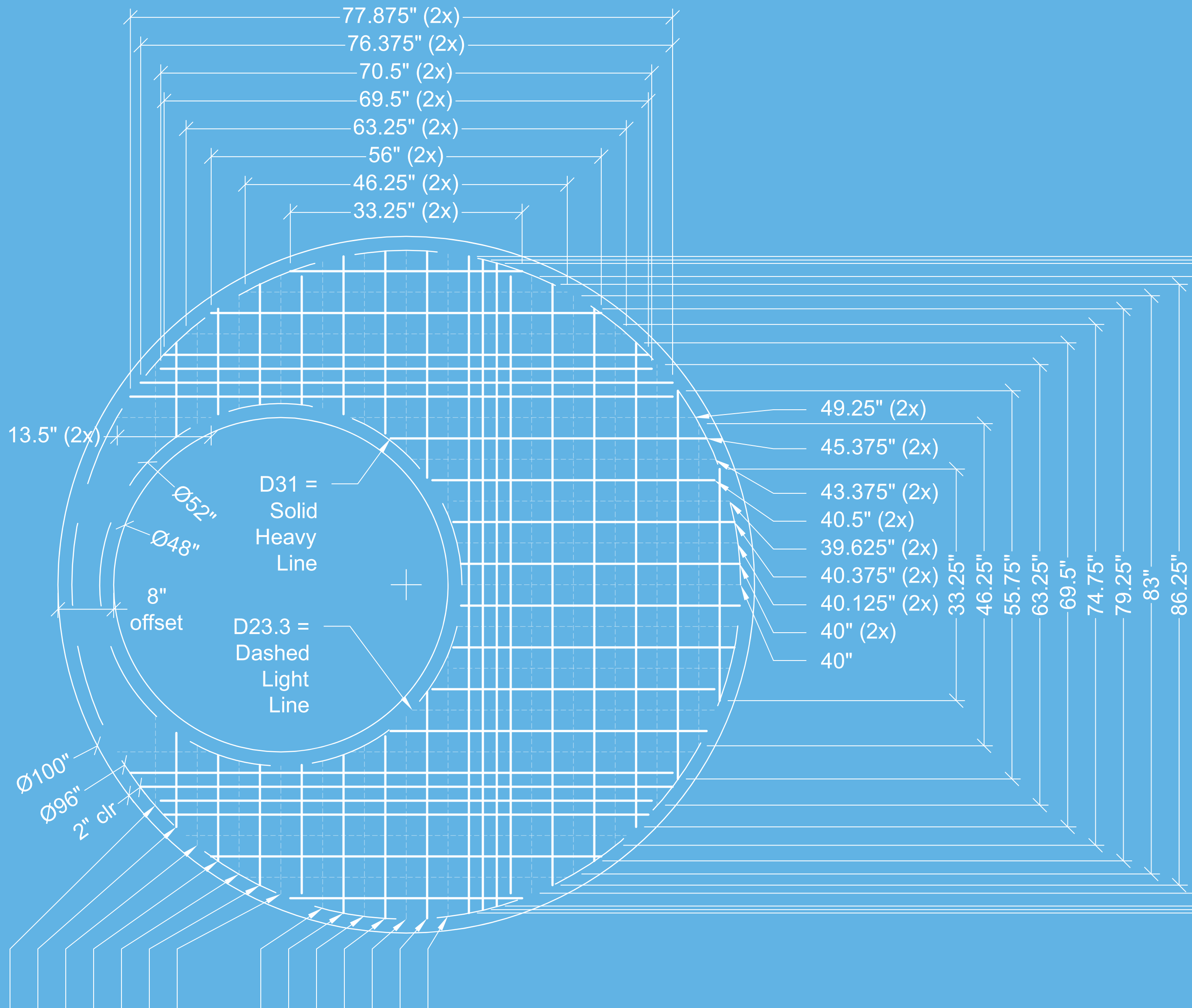
2019 ANNUAL REPORT

Insteel Industries is the nation's largest manufacturer of steel wire reinforcing products for concrete construction applications.

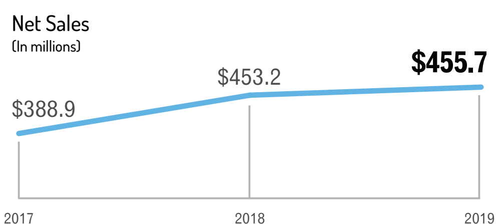


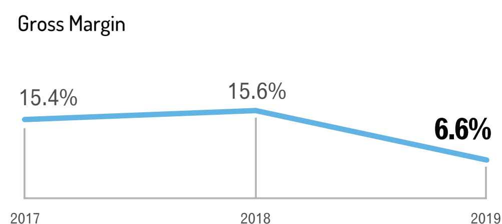
We manufacture and market prestressed concrete strand and welded wire reinforcement, including engineered structural mesh, concrete pipe reinforcement and standard welded wire reinforcement. Our products are sold primarily to manufacturers of concrete products that are used in nonresidential construction. Headquartered in Mount Airy, North Carolina, we operate ten manufacturing facilities located in the United States.

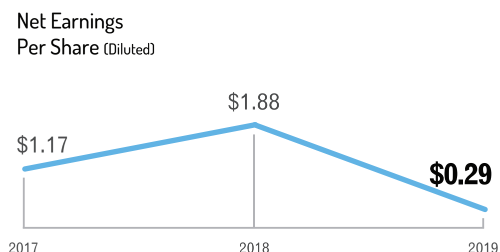
FINANCIAL HIGHLIGHTS

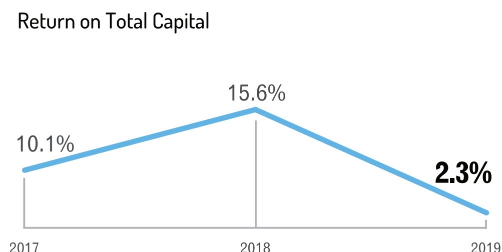
(Dollars in thousands, except per share amounts)	2019	2018	2017
Operating Results:			
Net sales	$455,713	$453,217	$388,871
Gross profit	30,061	70,807	59,781
% of net sales	6.6%	15.6%	15.4%
Net earnings	$5,598	$36,266	$22,548
% of net sales	1.2%	8.0%	5.8%
Per Share Data:			
Net earnings:			
Basic	$0.29	$1.90	$1.19
Diluted	0.29	1.88	1.17
Cash dividends declared	0.12	1.12	1.37
Returns:			
Return on total capital[1]	2.3%	15.6%	10.1%
Return on shareholders' equity[2]	2.3%	15.6%	10.1%
Financial Position:			
Cash and cash equivalents	$38,181	$43,941	$32,105
Total assets	293,009	329,534	283,073
Total debt	-	-	-
Shareholders' equity	246,017	241,665	223,376
Cash Flows:			
Net cash provided by operating activities	$6,608	$53,969	$20,840
Acquisition of business	-	3,300	-
Capital expenditures	10,512	18,449	20,575
Depreciation and amortization	13,553	12,818	11,649
Cash dividends paid	2,310	21,333	26,011

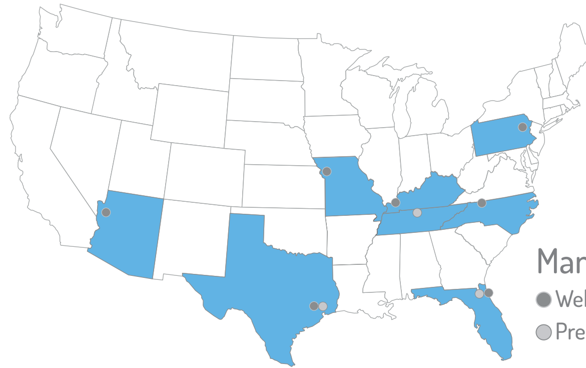
(1) Net earnings/(average total debt + average shareholders' equity).
(2) Net earnings/average shareholders' equity.











BUSINESS OVERVIEW

64% OF SALES

Welded Wire Reinforcement

Prefabricated reinforcement consisting of high-strength wires that are welded into specified patterns according to customer requirements, which may provide for alternative wire diameters, lengths and spacings. Wire intersections are electrically resistance-welded by computer-controlled continuous automatic welding lines that use pressure and heat to fuse longitudinal and transverse wires in their proper position.

ENGINEERED STRUCTURAL MESH

Engineered made-to-order product that is used as the primary reinforcement in concrete elements or structures, frequently serving as a replacement for hot-rolled rebar.

Plant Locations
Dayton, TX | Hazleton, PA | Jacksonville, FL | Kingman, AZ | Mount Airy, NC | St. Joseph, MO

Customer Segments
Precast and Prestressed Producers | Rebar Fabricators | Distributors | Contractors

End Uses
Nonresidential Construction

CONCRETE PIPE REINFORCEMENT

Engineered made-to-order product that is used as the primary reinforcement in concrete pipe and box culverts for drainage and sewage systems, water treatment facilities and other related applications.

Plant Locations
Dayton, TX | Jacksonville, FL | Kingman, AZ | Mount Airy, NC | St. Joseph, MO

Customer Segments
Concrete Pipe and Precast Producers

End Uses
Nonresidential Construction | Residential Construction

STANDARD WELDED WIRE REINFORCEMENT

Secondary reinforcing product that is produced in standard styles for crack control applications in residential and light nonresidential construction, including driveways, sidewalks and a wide range of slab-on-grade applications.

Plant Locations
Dayton, TX | Hazleton, PA | Hickman, KY | Jacksonville, FL | Mount Airy, NC

Customer Segments
Rebar Fabricators | Distributors

End Uses
Nonresidential Construction | Residential Construction

36% OF SALES

Prestressed Concrete Strand

High-strength seven-wire reinforcement consisting of six wires that are continuously wrapped around a center wire forming a strand, which is then heat-treated while under tension. Provides tensile strength and compression forces in concrete elements and structures, allowing for the use of longer, thinner and lighter spans or sections. May be used in either pretensioned or posttensioned applications to reinforce bridges, parking decks, buildings, other concrete structures and concrete slabs for new homes in regions that have expansive soil.

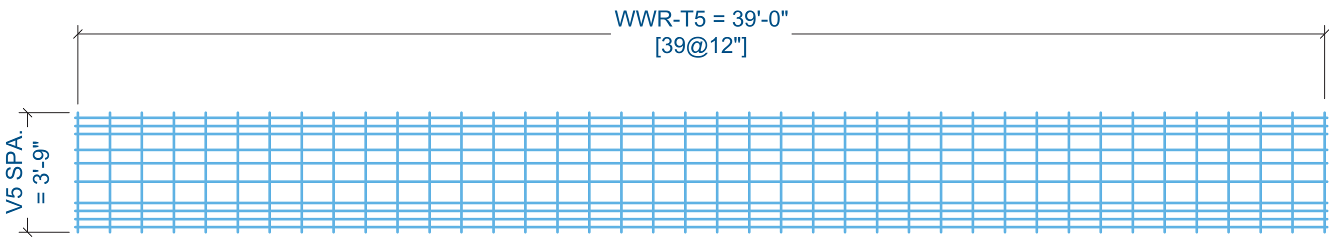
Plant Locations
Gallatin, TN | Houston, TX | Sanderson, FL

Customer Segments
Precast Prestress Producers | Posttensioning Suppliers

End Uses
Nonresidential Construction | Residential Construction

LETTER TO SHAREHOLDERS

During the year, we intensified our focus on our primary organic growth initiative – the expansion of our cast-in-place business through further penetration of the rebar market.



2019 was a difficult year for Insteel as we contended with a surge in low-priced import competition together with unusually wet weather that resulted in construction delays and deferred orders. Prices for our primary raw material, hot-rolled steel wire rod, and our products, which had escalated over the second half of 2018, reversed course and trended lower during the year.

In the face of these challenges, we continued to execute our strategy for long-term growth and the creation of shareholder value, which is centered on leveraging our market leadership positions across our product portfolio and strengthening our low-cost producer status. We made additional investments in our facilities and systems that supported our cost and productivity improvement initiatives and broadened our engineered structural mesh ("ESM") manufacturing capabilities. And we maintained our strong balance sheet, giving us the financial flexibility to pursue strategic growth opportunities that may develop in this challenging environment.

FINANCIAL RESULTS

Net sales for 2019 were essentially unchanged from the prior year at $455.7 million as an 8.2% increase in average selling prices was offset by a 7.2% decrease in shipments, reflecting the increased import competition and adverse weather through the first nine months of the year. Gross margin narrowed 900 basis points to 6.6% due to lower spreads between selling prices and raw material costs, and, to a lesser extent, the reduction in shipments and higher unit manufacturing costs on lower production volume. The spread and margin compression were compounded by the declining price environment and the resulting consumption of higher cost inventory purchased in earlier periods matched against lower average selling prices for our products. Net earnings declined to $5.6 million, or $0.29 per share, from $36.3 million, or $1.88 per diluted share, in 2018.

Cash flow from operations fell to $6.6 million from $54.0 million in the prior year due to the lower earnings and a $12.0 million increase in working capital. We ended the year debt-free with $38.2 million of cash and no borrowings outstanding on our $100 million revolving credit facility.

232 TARIFF

Import competition continued to escalate during the year, particularly in certain of our PC strand and standard welded wire reinforcement markets, extending the upward trend that began during the second half of 2018 in the wake of the imposition of the Section 232 tariffs on imported steel. The 25% tariff, which applies to imports of our primary raw material but excludes our finished products, has caused wire rod imports to plummet and driven domestic prices substantially higher than global market levels. Foreign competitors have responded by shifting production to downstream products in order to leverage the cost advantage they now enjoy and expand their market share in the U.S. The increased pricing pressure resulting from the influx of imports has spilled over into certain of our other markets as domestic competitors seek to backfill lost volume and retain their existing business.

We continued our dialogue with the Administration regarding the increasingly negative impact of the tariffs on our industry. Unfortunately, although we believe senior officials at the Department of Commerce, USTR and White House understand the adverse effect of the tariff program on steel consumers, it is unclear whether they are willing to take action to resolve the competitive disadvantage that it has created. Since it appears the Administration is firmly committed to its tariff approach on trade policy, we believe the only reasonable resolution would be to extend it to include downstream products.

GROWTH INITIATIVES

During the year, we intensified our focus on our primary organic growth initiative - the expansion of our cast-in-place ("CIP") business through further penetration of the rebar market. For many applications, the substitution of ESM for rebar represents an attractive value proposition for contractors by significantly reducing the installation labor and material requirements for a project and accelerating the construction process. The elimination of the labor-intensive placing and hand-tying inherent to rebar is particularly attractive in today's tight job market environment. An additional advantage is the higher yield strength of ESM relative to rebar, which allows for the use of less material to obtain the equivalent reinforcement. As rebar users initially convert projects to ESM and experience first-hand the advantages that it offers, they tend to become repeat customers going forward.

With six manufacturing locations that produce ESM, our broad footprint positions us to supply projects nationwide in a responsive and cost-effective manner. The substantial investments we've made in our facilities in recent years employ the latest technology, allowing for a broader range of design configurations, higher productivity levels, the economic production of smaller order sizes and additional capacity to support the execution of our growth plan. During 2019, we began the commissioning process for a new production line at our North Carolina facility that will allow us to produce certain niche products and significantly reduce our operating costs.

Complementing these investments, our November 2017 acquisition of certain of the assets of Ortiz Engineered Products, Inc. ("OEP") has strengthened our engineering and project management capabilities in order to accelerate our CIP growth efforts. OEP, a provider of value-engineered reinforcing solutions for the concrete construction industry, had carved out a niche primarily in the Northeast market converting projects that were designed with rebar to ESM. We expect to make considerable progress in expanding our CIP business going forward as we leverage the sales engineering and manufacturing infrastructure we have developed, which is unmatched in the industry.

LOOKING AHEAD

As we move into 2020, we expect continued growth in our markets. Our infrastructure-related business should be favorably impacted by higher state and local spending in many of our markets supported by various funding initiatives together with FAST Act and supplementary measures at the federal level. Leading indicators and industry forecasts for nonresidential construction remain relatively stable, implying modest growth with the continued expansion in the economy. We should also benefit, to some extent, from the weather-related deferral of business from last year.

We expect business conditions will remain challenging, however, as the increased import competition and related pricing pressure is likely to persist pending a solution to the tariff issue that levels the playing field for domestic producers of downstream products. In the interim, we will maintain our focus on our strategic priorities and those factors that we can control: aggressively pursuing improvements in the productivity and effectiveness of all our business activities; optimizing our operating costs; meeting the service expectations of our customers; and continuing to make strategic investments in our people, facilities and systems. In addition, we will utilize our strong balance sheet and flexible capital structure to pursue further strategic acquisition opportunities that may develop in a more difficult market environment. In doing so, we will continue to exercise valuation discipline and maintain sound judgment to ensure that we achieve satisfactory returns for our shareholders without compromising our strong financial position.

We believe that Insteel will emerge from this challenging period even stronger and look forward to the opportunities that lie ahead. Thanks to our employees, customers and shareholders for their continued trust, confidence and support.

H.O. Woltz III
Chairman, President and
Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 28, 2019
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________
Commission file number 1-9929

INSTEEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

North Carolina	56-0674867
(State or other jurisdiction of 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:

SECURITIES REGISTERED SUBJECT TO SECTION 12(b) OF THE EXCHANGE ACT:		
Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock (No Par Value)	**IIIN**	**The Nasdaq Stock Market LLC (Nasdaq Global Select Market)**

Indicate by check mark	YES	NO
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☐	☑
• if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.	☐	☑
• 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.	☑	☐
• 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).	☑	☐
• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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. (Check one):		
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.		☐
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☑

As of March 30, 2019 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $289,144,525 based upon the closing sale price as reported on the Nasdaq Global Select Market. As of October 24, 2019, there were 19,260,725 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's proxy statement to be delivered to shareholders in connection with the 2020 Annual Meeting of Shareholders are incorporated by reference as set forth in Part III hereof.

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Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, particularly in the "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this report. When used in this report, the words "believes," "anticipates," "expects," "estimates," "appears," "plans," "intends," "may," "should," "could" and similar 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 a number of risks and uncertainties, 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 the "Risk Factors" section of this report and are updated from time to time in our filings with the United States ("U.S.") Securities and Exchange Commission ("SEC").

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 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;
- 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, including the Section 232 tariff on imported steel, 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 operating costs;
- unanticipated plant outages, equipment failures or labor difficulties; and
- the risks and uncertainties discussed herein under the caption "Risk Factors."

PART I

Item 1 Business

General

Insteel Industries, Inc. ("we," "us," "our," "the Company" or "Insteel") is the nation's largest manufacturer of steel wire reinforcing products for concrete construction applications. We manufacture and market prestressed concrete strand ("PC strand") and welded wire reinforcement ("WWR"), including ESM, concrete pipe reinforcement ("CPR") and standard welded wire reinforcement ("SWWR"). Our products are sold primarily to manufacturers of concrete products that are used in nonresidential construction. For fiscal 2019, we estimate that approximately 85% of our sales were related to nonresidential construction and 15% were related to residential construction.

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

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

Products

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: PC strand and WWR. Based on the criteria specified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, Segment Reporting, we have one reportable segment.

PC strand is a high strength, seven-wire strand that is used to impart compression forces into precast concrete elements and structures, which may be either pretensioned or posttensioned, providing reinforcement for bridges, parking decks, buildings and other concrete structures. Its high tensile strength allows for the casting of longer spans and thinner sections. Pretensioned or "prestressed" concrete elements or structures are primarily used in nonresidential construction while posttensioned concrete elements or structures are used in both nonresidential and residential construction.

WWR is produced as either a standard or a specially engineered reinforcing product for use in nonresidential and residential construction. We produce a full range of WWR products, including ESM, CPR and SWWR. ESM is an engineered made-to-order product that is used as the primary reinforcement for concrete elements or structures, frequently serving as a lower cost reinforcing solution than hot-rolled rebar. CPR is an engineered made-to-order product that is used as the primary reinforcement in concrete pipe, box culverts and precast manholes for drainage and sewage systems, water treatment facilities and other related applications. SWWR is a secondary reinforcing product that is produced in standard styles for crack control applications in residential and light nonresidential construction, including driveways, sidewalks and various slab-on-grade applications.

Marketing and Distribution

We market our products through sales representatives who are our employees. Our outside sales representatives are trained on the technical applications for our products and sell multiple product lines in their respective territories. We sell our products nationwide across the U.S. and, to a much lesser extent, into Canada, Mexico, and Central and South America. Our products are shipped primarily by truck, using common or contract carriers. The delivery method selected is determined based on backhaul opportunities, comparative costs and customer service requirements.

Customers

We sell our products to a broad range of customers that includes manufacturers of concrete products, and to a lesser extent, distributors, rebar fabricators and contractors. In fiscal 2019, we estimate that approximately 70% of our net sales were to manufacturers of concrete products and 30% were to distributors, rebar fabricators and contractors. In many cases we are unable to identify the specific end use for our products as most of our customers sell products that are used for both nonresidential and residential construction, and the same products can be used for different end uses. We did not have any customers that represented 10% or more of our net sales in fiscal years 2019, 2018 and 2017. The loss of a single customer or a few customers would not have a material adverse impact on our business.

Backlog

Backlog for our business is minimal due to the relatively short lead times that are required by our customers. We believe that the majority of our firm orders as of the end of fiscal 2019 will be shipped during the first quarter of fiscal 2020.

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. Shipments are seasonal, typically reaching their highest level 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. Construction activity and demand for our products is cyclical based on overall economic conditions, although there can be significant differences between the relative strength of nonresidential and residential construction for extended periods.

Raw Materials

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

Wire rod prices tend to fluctuate based on changes in scrap and other metallic prices for steel producers together with domestic and global market conditions. In most economic environments, domestic demand for wire rod exceeds domestic production capacity and imports of wire rod are necessary to satisfy the supply requirements of the U.S. market. U.S. government trade policies and trade actions by domestic wire rod producers can significantly impact the pricing and availability of imported wire rod, which during fiscal years 2019 and 2018 represented approximately 8% and 14%, respectively, of our total wire rod purchases. We believe that our substantial wire rod requirements, desirable mix of sizes and grades, and strong financial condition represent a competitive advantage by making us a relatively more attractive customer to our suppliers.

Our ability to source wire rod from overseas suppliers is limited by domestic content requirements generally referred to as “Buy America” or “Buy American” laws that exist at both the federal and state levels. These laws generally prescribe a domestic “melt and cast” standard for purposes of compliance. Customers purchasing PC strand and WWR for certain applications require the Company to certify compliance with Buy America laws.

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

Competition

We are the nation’s largest manufacturer of steel wire reinforcing products for concrete construction applications. Our markets are highly competitive based on price, quality and service. Some of our competitors, such as Nucor Corporation, Liberty Steel USA (“Liberty”) and Oklahoma Steel and Wire, are vertically integrated companies that produce both wire rod and concrete reinforcing products and offer multiple product lines over broad geographic areas. Other competitors are smaller independent companies that offer limited competition in certain markets. Our primary competitors for WWR products are Engineered Wire Products, Inc. (a subsidiary of Liberty), Wire Mesh Corporation, Concrete Reinforcements, Inc., National Wire Products, Davis Wire Corporation and Oklahoma Steel & Wire Co., Inc. Our primary competitors for PC strand are Sumiden Wire Products

Corporation, Strand-Tech Manufacturing, Inc. (a subsidiary of Liberty) and Wire Mesh Corporation. Import competition is also a significant factor in certain segments of the PC strand and SWWR markets that are not subject to "Buy America" requirements.

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

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

Employees

As of September 28, 2019, we had 834 employees, none of which were represented by labor unions. In the event of production disruptions, we believe that our contingency plans would enable us to continue serving our customers, although there can be no assurances that a work slowdown or stoppage would not adversely impact our operating costs and financial results.

Product Warranties

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

Environmental Matters

We believe that we are in compliance in all material respects with applicable environmental laws and regulations. We have experienced no material difficulties in complying with legislative or regulatory standards and believe that these standards have not materially impacted our financial position or results of operations. Although our future compliance with additional environmental requirements could necessitate capital outlays, we do not believe these expenditures would ultimately have a material adverse effect on our financial position or results of operations. We do not expect to incur material capital expenditures for environmental control facilities during fiscal 2020.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports, are available at no cost on our web site at *https://insteelgcs.gcs-web.com/financial-information/sec-filings* and the SEC's web site at *www.sec.gov* as soon as reasonably practicable after we file these reports with the SEC. The information available on our web site and the SEC's website is not incorporated into this report or any of our filings with the SEC.

Item 1A Risk Factors

An investment in our common stock involves risks and uncertainties. You should carefully consider the following risk factors, in addition to the other information contained in this annual report on Form 10-K, before deciding whether an investment in our common stock is suitable for you. The risk factors described below are not the only ones we face. There may be other risks and uncertainties that are currently unknown to us or that we currently consider to be immaterial that could adversely affect our business, results of operations, financial condition and cash flows.

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

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

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

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

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

Our shipments are typically lower in the first and second fiscal quarters due to the unfavorable impact of winter weather on construction activity during these periods and customer plant shutdowns associated with holidays. As a result, our cash flows may fluctuate from quarter to quarter due to these seasonal factors.

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

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

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

The primary raw material used to manufacture our products is hot-rolled carbon steel wire rod, which we purchase from both domestic and foreign suppliers. We do not use derivative commodity instruments to hedge our exposure to changes in the price of wire rod as such instruments are currently unavailable in the financial markets. Prices for wire rod have become increasingly volatile in recent years driven by the higher degree of variability in raw material costs for rod producers, changes in trade policy and the tightening of domestic supply. In response, wire rod producers have resorted to increasing the frequency of price adjustments, typically on a monthly basis as well as unilaterally changing the terms of prior commitments.

Although changes in our wire rod costs and selling prices tend to be correlated, we may be unable to fully recover increased rod costs during weaker market environments, which would reduce our earnings and cash flows. Additionally, when raw material costs decline, our financial results would 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.

Our financial results can also be significantly impacted if raw material supplies are inadequate to satisfy our purchasing requirements. In addition, U.S. government trade policies, such as the imposition of the steel tariffs imposed under Section 232 of the Trade Expansion Act of 1962, as amended, or trade actions by domestic wire rod producers against other countries can significantly impact the availability and cost of imported wire rod. The imposition of tariffs, quotas or anti-dumping or countervailing duty margins by the U.S. government against exporting countries can have the effect of reducing or eliminating their competitiveness and participation in the domestic market. If we were unable to obtain adequate and timely delivery of our raw material requirements, we may be unable to manufacture sufficient quantities of our products or operate our manufacturing facilities in an efficient manner, which could result in lost sales and higher operating costs.

Foreign competition could adversely impact our financial results.

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

The perpetuation of the Section 232 tariff on imported steel, as currently structured, would continue to negatively impact our financial results and cash flows.

The imposition of the Section 232 tariff on imported steel, which became effective in March 2018, has resulted in a surge in low-priced imports in certain of our markets, particularly PC strand and SWWR. The tariff, which applies to imports of our primary raw material but excludes our finished products, has provided offshore competitors with a significant cost advantage that has allowed them to underprice domestic producers and expand their market share, thereby displacing U.S. production. If the Administration continues the tariff program and fails to extend it to include our finished products, the resulting adverse impact on our market share, financial results and cash flow that we experienced during 2019 will persist.

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

Our manufacturing facilities are subject to risks that may limit our ability to manufacture and sell our products, including unexpected equipment failures, operational interruptions and catastrophic losses due to other unanticipated events such as fires, explosions, accidents, adverse weather conditions and transportation interruptions. For example, during fiscal 2017, operations at our Texas and Florida plants were temporarily curtailed due to flooding and power outages related to hurricanes Harvey and Irma, and during fiscal 2018, a transformer outage and electrical fire at our Dayton, Texas plant resulted in a temporary interruption of operations. Any such equipment failures or events can subject us to plant shutdowns and periods of reduced production or unexpected downtime. Furthermore, the resolution of certain operational interruptions may require significant capital expenditures. Although our insurance coverage could offset the losses or expenditures relating to some of these events, our results of operations and cash flows would be negatively impacted to the extent that such claims were not covered or only partially covered by our insurance.

We are increasingly dependent on information technology systems that are susceptible to certain risks, including cybersecurity breaches and data leaks, which could adversely impact our business.

Our increasing reliance on technology systems and infrastructure heightens our potential vulnerability to system failure and malfunction, breakdowns due to natural disasters, human error, unauthorized access, power loss and other unforeseen events. Data privacy breaches by employees and others with or without authorized access to our systems poses risks that sensitive data may be permanently lost or leaked to the public or other unauthorized persons. With the growing use and rapid evolution of technology, not limited to cloud-based computing and mobile devices, there are additional risks of unintentional data leaks. There is also the risk of the theft of confidential information, intentional vandalism, industrial espionage and a variety of cyber-attacks that could compromise our internal technology system and infrastructure or result in data leaks in-house or at our third-party providers and business partners. Failures of technology or related systems, or an improper release of confidential information, could adversely impact our business or subject us to unexpected liabilities.

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

Consistent with the experience of other employers, our medical and workers' compensation costs have increased substantially in recent years and are expected to continue to rise. The Patient Protection and Affordable Care Act ("ACA") will have a significant impact on employers, health care providers, insurers and others associated with the health care industry and increase our employee health care costs. This legislation requires certain large employers like us to offer health care benefits to full-time employees or face potential annual penalties. To avoid these penalties, employers must offer health benefits providing a minimum level of coverage and limit the amount that employees are charged for the coverage. The Administration and Congress are pursuing legislative and regulatory changes that modify, repeal, replace with new legislation or otherwise invalidate all or certain portions of the ACA. The Tax Cuts and Jobs Act of 2017 effectively eliminated certain provisions of the ACA, including the individual mandate beginning in 2019. We cannot predict the ultimate content, timing, or effect of any healthcare reform legislation or the impact of potential legislation or related proposals and policies on our results. Any significant increases in the costs attributable to our self-insured health and workers' compensation plans could adversely impact our business, results of operations, financial condition and cash flows.

In addition, increasing prices for freight, natural gas, electricity, fuel and consumables would adversely affect our manufacturing and distribution costs. For most of our business, we incur the transportation costs associated with the delivery of products to our customers. Although we have previously implemented numerous measures to offset the impact of increases in these costs, there can be no assurance that such actions will be effective. If we are unable to pass these additional costs through by raising our selling prices, our financial results could be adversely impacted.

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

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

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

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

Changes in environmental compliance and remediation requirements could result in substantial increases in our capital investments and operating costs.

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

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

Equity markets in the U.S. have been increasingly volatile in recent years. During fiscal 2019, our common stock traded as high as $36.04 and as low as $17.50. There are numerous factors that could cause the price of our common stock to fluctuate significantly, including: variations in our financial results; changes in our business outlook and expectations for the construction industry; changes in market valuations of companies in our industry; and announcements by us, our competitors or industry participants that may be perceived to impact our financial results.

Item 1B Unresolved Staff Comments

None.

Item 2 Properties

Our corporate headquarters and IWP's sales and administrative offices are located in Mount Airy, North Carolina. At September 28, 2019, we operated ten manufacturing facilities located in Dayton, Texas; Gallatin, Tennessee; Hazleton, Pennsylvania; Hickman, Kentucky; Houston, Texas; Jacksonville, Florida; Kingman, Arizona; Mount Airy, North Carolina; Sanderson, Florida; and St. Joseph, Missouri.

We own all of our real estate following the exercise of the purchase option on the previously leased Houston facility in October 2017. We believe that our properties are in good operating condition and that our machinery and equipment have been well maintained. We also believe that our manufacturing facilities are suitable for their intended purposes and have capacities adequate to satisfy the current and projected demand for our products.

Item 3 Legal Proceedings

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

Item 4 Mine Safety Disclosures

Not applicable.

Executive Officers of the Company

Our executive officers are as follows:

Name	Age	Position
H.O. Woltz III	63	President, Chief Executive Officer and Chairman of the Board
Michael C. Gazmarian	60	Vice President, Chief Financial Officer and Treasurer
James F. Petelle	69	Vice President - Administration and Secretary
Richard T. Wagner	60	Vice President and General Manager of IWP

H. O. Woltz III, 63, was elected Chief Executive Officer in 1991 and has been employed by us and our subsidiaries in various capacities since 1978. He was named President and Chief Operating Officer in 1989. He served as our Vice President from 1988 to 1989 and as President of Rappahannock Wire Company, formerly a subsidiary of our Company, from 1981 to 1989. Mr. Woltz has been a Director since 1986 and also serves as President of Insteel Wire Products Company. Mr. Woltz served as President of Florida Wire and Cable, Inc., formerly a subsidiary of our Company, until its merger with Insteel Wire Products Company in 2002. Mr. Woltz was elected Chairman of the Board in 2009.

Michael C. Gazmarian, 60, was elected Vice President, Chief Financial Officer and Treasurer in February 2007. He had previously served as Chief Financial Officer and Treasurer since 1994, the year he joined us. Before joining us, Mr. Gazmarian had been employed by Guardian Industries Corp., a privately-held manufacturer of glass, automotive and building products, since 1986, serving in various financial capacities.

James F. Petelle, 69, joined us in October 2006. He was elected Vice President and Assistant Secretary on November 14, 2006 and Vice President - Administration and Secretary on January 12, 2007. He was previously employed by Andrew Corporation, a publicly-held manufacturer of telecommunications infrastructure equipment, having served as Secretary from 1990 to May 2006, and Vice President - Law from 2000 to October 2006.

Richard T. Wagner, 60, joined us in 1992 and has served as Vice President and General Manager of the Concrete Reinforcing Products Business Unit of our subsidiary, Insteel Wire Products Company, since 1998. In February 2007, Mr. Wagner was appointed Vice President of the parent company, Insteel Industries, Inc. From 1977 until 1992, Mr. Wagner served in various positions with Florida Wire and Cable, Inc., a manufacturer of PC strand and galvanized strand products, which was later acquired by us in 2000.

The executive officers listed above were elected by our Board of Directors at its annual meeting held February 12, 2019 for a term that will expire at the next annual meeting or until their successors are elected and qualify. The next meeting at which officers will be elected is expected to be February 11, 2020.

PART II

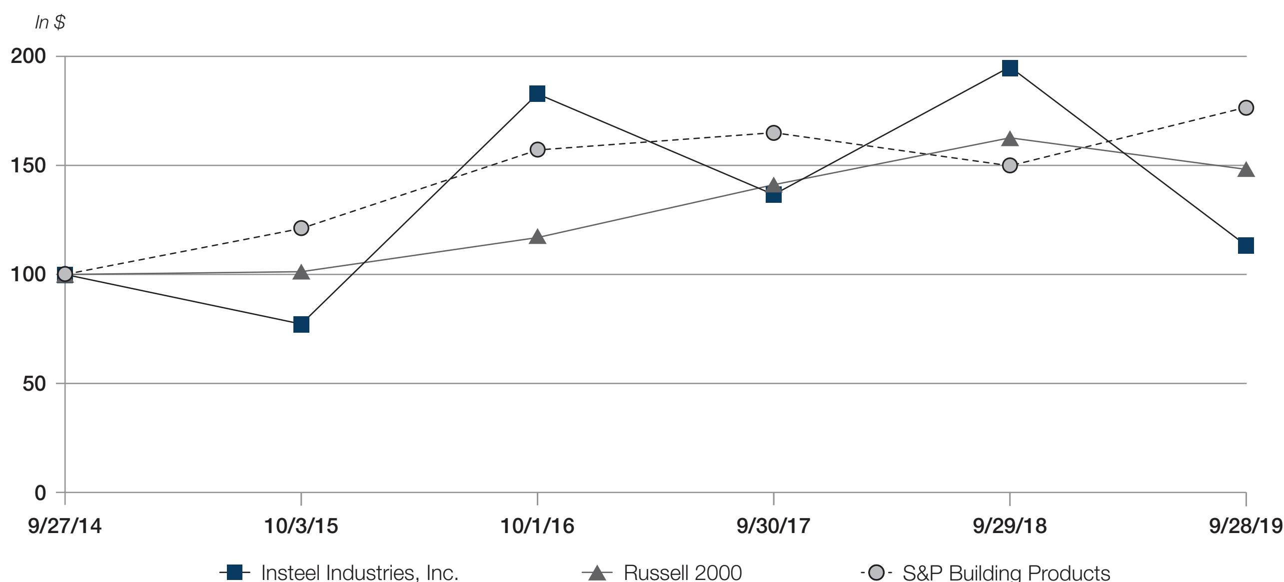
Item 5 Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the Nasdaq Global Select Market under the symbol "IIIN" and has been trading on Nasdaq since September 28, 2004. As of October 23, 2019, there were 531 shareholders of record.

Stock Performance Graph

The graph below compares the cumulative total shareholder return on our common stock with the cumulative total return of the Russell 2000 Index and the S&P Building Products Index for the five years ended September 28, 2019. The graph and table assume that $100 was invested on September 27, 2014 in our common stock and in each of the two indices and the reinvestment of all dividends. Cumulative total shareholder returns for our common stock, the Russell 2000 Index and the S&P Building Products Index are based on our fiscal year.

Comparison of Five-Year Cumulative Return for Insteel Industries, Inc., the Russell 2000 Index and the S&P Building Products Index



	Fiscal Year Ended					
	9/27/14	10/3/15	10/1/16	9/30/17	9/29/18	9/28/19
Insteel Industries, Inc.	$ 100.00	$ 77.24	$ 182.81	$ 136.61	$ 195.18	$ 113.29
Russell 2000	100.00	101.25	116.91	141.15	162.66	148.20
S&P Building Products	100.00	121.09	157.07	165.02	149.83	176.67

Issuer Purchases of Equity Securities

Information regarding our share repurchase authorization is discussed in Note 18 to our consolidated financial statements and incorporated herein by reference.

Item 6 Selected Financial Data

Financial Highlights

	Year Ended				
(In thousands, except per share amounts)	(52 weeks) September 28, 2019	(52 weeks) September 29, 2018	(52 weeks) September 30, 2017	(52 weeks) October 1, 2016	(53 weeks) October 3, 2015
Net sales	$ 455,713	$ 453,217	$ 388,871	$ 418,547	$ 447,504
Net earnings	5,598	36,266	22,548	37,245	21,710
Net earnings per share (basic)	0.29	1.90	1.19	1.99	1.18
Net earnings per share (diluted)	0.29	1.88	1.17	1.95	1.15
Cash dividends declared	0.12	1.12	1.37	1.12	0.12
Total assets	293,009	329,534	283,073	292,892	260,239
Total debt	—	—	—	—	—
Shareholders' equity	246,017	241,665	223,376	224,566	200,215

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

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

Overview

Our operations are entirely focused on the manufacture and marketing of concrete reinforcing products for the concrete construction industry. Our business strategy is focused on: (1) achieving leadership positions in our markets; (2) operating as the lowest cost producer 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.

Critical Accounting Policies

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

The following critical accounting policies are both important to the depiction of our financial condition and results of operations and require judgments, assumptions and estimates.

Revenue recognition

We recognize revenues when obligations under the terms of a contract with our customers are satisfied, which generally occurs when products are shipped and control is transferred. Revenue is measured as the amount of consideration expected to be received in exchange for our products.

Concentration of credit risk

Financial instruments that subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Our cash is concentrated primarily at one financial institution, which at times exceeds federally insured limits. We are exposed to credit risk in the event of default by institutions in

which our cash and cash equivalents are held and by customers to the extent of the amounts recorded for accounts receivable on the balance sheet. We invest excess cash primarily in money market funds, which are highly liquid securities that bear minimal risk.

Most of our accounts receivable are due from customers that are located in the U.S. and are generally not secured by collateral depending upon the creditworthiness of the account. We provide an allowance for doubtful accounts based upon our assessment of the credit risk of specific customers, historical trends and other information. There is no disproportionate concentration of credit risk.

Allowance for doubtful accounts

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

Inventory valuation

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

Long-lived assets

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

Goodwill

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

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

We monitor our operating results throughout the year to determine if events or changes in circumstances warrant any interim impairment testing. Otherwise, goodwill will be subject to the required annual impairment test during our fourth quarter. Changes in the judgments and estimates underlying our analysis of goodwill for possible impairment, including the expected future operating cash flows and discount rate, could reduce our estimated fair value in the future and result in an impairment of goodwill. There was no goodwill impairment loss recognized in fiscal 2019.

Self-insurance

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

Litigation

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

Stock-based compensation

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

Assumptions for employee benefit plan

We account for our supplemental employee retirement plans (each, a "SERP") in accordance with ASC Topic 715, Compensation - Retirement Benefits. Under the provisions of ASC Topic 715, we recognize net periodic pension cost and value liabilities based on certain actuarial assumptions, principally the assumed discount rate.

The discount rate we utilize for determining net periodic pension cost and the related benefit obligation for the SERPs is based, in part, on current interest rates earned on long-term bonds that receive one of the two highest ratings assigned by recognized rating agencies. Our discount rate assumptions are adjusted as of each valuation date to reflect current interest rates on such long-term bonds. The discount rate is used to determine the actuarial present value of the benefit obligations as of the valuation date as well as the interest component of the net periodic pension cost for the following year. The discount rate for the SERPs was 3.00% for fiscal 2019, 4.00% for fiscal 2018 and 3.75% for fiscal 2017.

The assumed discount rate is reevaluated annually. Changes in this assumption can result in the recognition of a materially different pension cost over different periods and a materially different liability amount in our consolidated financial statements. A reduction in the assumed discount rate generally results in an actuarial loss, as the actuarially-determined present value of estimated future benefit payments will increase. Conversely, an increase in the assumed discount rate generally results in an actuarial gain. However, any actuarial gains generated in future periods reduce the negative amortization effect of any cumulative unamortized actuarial losses, while any actuarial losses generated in future periods reduce the favorable amortization effect of any cumulative unamortized actuarial gains.

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

We currently expect net periodic pension cost for fiscal 2020 to be $966,000 for the SERPs. Cash contributions to the SERPs during fiscal 2020 are expected to be $283,000.

A 0.25% decrease in the assumed discount rate for our SERPs would have increased our projected and accumulated benefit obligations as of September 28, 2019 by approximately $326,000 and $271,000, respectively, and our expected net periodic pension cost for fiscal 2020 by approximately $40,000.

Recent Accounting Pronouncements

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

Results of Operations

The table below presents a summary of our results of operations for fiscal 2019 and fiscal 2018. See Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 29, 2018, filed with the SEC on October 26, 2018, for Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended September 30, 2017.

STATEMENTS OF OPERATIONS – SELECTED DATA

	Year Ended		
(Dollars in thousands)	September 28, 2019	Change	September 29, 2018
Net sales	$ 455,713	0.6%	$ 453,217
Gross profit	30,061	(57.5%)	70,807
Percentage of net sales	*6.6%*		*15.6%*
Selling, general and administrative expense	$ 24,504	(13.4%)	$ 28,304
Percentage of net sales	*5.4%*		*6.2%*
Other expense (income), net	$ (1,773)	N/M	$ 274
Interest expense	168	47.4%	114
Interest income	(293)	(43.1%)	(515)
Effective income tax rate	24.9%		14.9%
Net earnings	$ 5,598	(84.6%)	$ 36,266

N/M = Not meaningful

2019 Compared with 2018

Net Sales

Net sales increased 0.6% to $455.7 million in 2019 from $453.2 million in 2018, reflecting an 8.1% increase in average selling prices partially offset by a 7.1% decrease in shipments. The increase in average selling prices was driven by price increases that were implemented over the course of the prior year to recover the escalation in raw material costs. Shipments for the current year were unfavorably impacted by an increase in low-priced import competition spurred by the Section 232 tariff on imported steel together with the unusually wet weather across many of our markets through the first three quarters of the year.

Gross Profit

Gross profit decreased 57.5% to $30.1 million, or 6.6% of net sales, in 2019 from $70.8 million, or 15.6% of net sales, in 2018 primarily due to lower spreads between average selling prices and raw material costs ($29.7 million), higher manufacturing costs ($5.8 million) and lower shipments ($5.1 million). The decrease in spreads was driven by higher raw material costs ($63.1 million) partially offset by higher average selling prices ($33.3 million) and lower freight costs ($0.1 million).

Selling, General and Administrative Expense

Selling, general and administrative expense ("SG&A expense") decreased 13.4% to $24.5 million, or 5.4% of net sales, in 2019 from $28.3 million, or 6.2% of net sales, in 2018 primarily due to lower compensation expense ($4.2 million) partially offset by a smaller increase in the cash surrender value of life insurance policies ($367,000) in the current year. The decrease in compensation expense was largely driven by lower incentive plan expense based on our weaker financial results in the current year. The cash surrender value of life insurance policies increased $186,000 in 2019 compared with $553,000 in the prior year due to the changes in the value of the underlying investments.

Other Expense (Income), Net

Other income was $1.8 million for 2019 compared with other expense of $274,000 in 2018. Other income for the current year was primarily related to gains from property insurance ($1.2 million) and the disposition of property, plant and equipment ($497,000). Other expense for the prior year was primarily related to losses on the disposition of property, plant and equipment.

Income Taxes

Our effective income tax rate for 2019 increased to 24.9% from 14.9% in 2018. The effective rate for 2018 reflects a $3.3 million benefit from the remeasurement of deferred tax liabilities related to the lower corporate tax rate enacted under the Tax Cuts and Jobs Act in December 2017. Excluding the deferred tax benefit, our effective tax rate increased to 24.9% from 22.7% in the prior year due primarily to changes in permanent book versus tax differences.

Net Earnings

Net earnings decreased to $5.6 million ($0.29 per share) in 2019 from $36.3 million ($1.88 per diluted share) in 2018 primarily due to the decrease in gross profit partially offset by lower SG&A expense.

Liquidity and Capital Resources

SELECTED FINANCIAL DATA

	Year Ended			
(Dollars in thousands)	September 28, 2019		September 29, 2018	
Net cash provided by operating activities	$	6,608	$	53,969
Net cash used for investing activities		(9,556)		(21,939)
Net cash used for financing activities		(2,812)		(20,194)
Cash and cash equivalents		38,181		43,941
Net working capital		132,171		123,489
Total debt		—		—
Percentage of total capital		—		—
Shareholders' equity	$	246,017	$	241,665
Percentage of total capital		*100%*		*100%*
Total capital (total debt + shareholders' equity)	$	246,017	$	241,665

Operating Activities

Operating activities provided $6.6 million of cash in 2019 primarily from net earnings adjusted for non-cash items partially offset by an increase in working capital. Working capital used $12.0 million of cash due to a $42.6 million decrease in accounts payable and accrued expenses partially offset by a $23.3 million decrease in inventories and a $7.3 million decrease in accounts receivable. The reductions in accounts payable and accrued expenses were primarily related to lower raw material purchases near the end of the year relative to the elevated level at the beginning of the year together with a decrease in accrued salaries, wages and related expenses. The reduction in inventories was primarily driven by lower raw material purchases and unit costs. The reduction in accounts receivable was primarily related to lower selling prices and a decrease in days sales outstanding.

Operating activities provided $54.0 million of cash in 2018 primarily from net earnings adjusted for non-cash items and a reduction in working capital. Working capital provided $4.7 million of cash due to a $28.2 million increase in accounts payable and accrued expenses partially offset by a $12.3 million increase in inventories and an $11.2 million increase in accounts receivable. The increase in accounts payable and accrued expenses was primarily related to higher raw material purchases near the end of the year and, to a lesser extent, increases in accrued salaries, wages and related expenses. The increases in inventories and accounts receivable were due to the escalation in raw material costs and average selling prices during the year.

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

Investing Activities

Investing activities used $9.6 million of cash in 2019 primarily due to $10.5 million of capital expenditures focused on cost and productivity improvement initiatives in addition to recurring maintenance partially offset by $1.2 million of insurance proceeds related to an insurance claim at our Dayton, Texas facility. Investing activities used $21.9 million of cash in 2018 primarily due to $18.4 million of capital expenditures and $3.3 million for the acquisition of a business. The capital expenditures were largely related to additional investments in ESM manufacturing capabilities, the purchase of the leased Houston facility and further upgrades of production technology and information systems. Our investing activities are largely discretionary, providing us with the ability to significantly curtail outlays should future business conditions warrant that such actions be taken.

Financing Activities

Financing activities used $2.8 million of cash in 2019 and $20.2 million of cash in 2018. In 2019, $2.3 million of cash was used for dividend payments and $0.3 million for financing costs associated with the amendment of our revolving credit facility. In 2018, $21.3 million of cash was used for dividend payments (including a special cash dividend of $19.0 million, or $1.00 per share, and regular cash dividends totaling $2.3 million), which was partially offset by $2.1 million of proceeds from the exercise of stock options.

Cash Management

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

Credit Facility

We have a $100.0 million revolving credit facility (the "Credit Facility") that is used to supplement our operating cash flow and fund our working capital, capital expenditure, general corporate and growth requirements. In May 2019, we entered into a new credit agreement, which amended and restated in its entirety the previous agreement pertaining to the revolving credit facility that had been in effect since June 2010. The new credit agreement, among other changes, extended the maturity date of the Credit Facility from May 13, 2020 to May 15, 2024 and provided for an incremental 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 September 28, 2019, no borrowings were outstanding on the Credit Facility, $82.9 million of borrowing capacity was available and outstanding letters of credit totaled $1.6 million (see Note 8 to the consolidated financial statements). As of September 29, 2018, there were no borrowings outstanding on the Credit Facility.

We believe that, in the absence of significant unanticipated cash demands, cash and cash equivalents, 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 also expect to have access to the amounts available under our 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, delay or restrict share repurchases, cease dividend payments and/or realign our working capital requirements.

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

Impact of Inflation

We are subject to inflationary risks arising from fluctuations in the market prices for our primary raw material, hot-rolled carbon steel wire rod, and, to a much lesser extent, freight, energy and other consumables that are used in our manufacturing processes. We have generally been able to adjust our selling prices to pass through increases in these costs or offset them through various cost reduction and productivity improvement initiatives. However, our ability to raise our selling prices depends on market conditions and competitive dynamics, and there may be periods during which we are unable to fully recover increases in our costs.

In 2019, the year-over-year escalation in our raw material costs exceeded the increase in our selling prices due to competitive pricing pressures. During 2018, we were successful in implementing price increases sufficient to recover the escalation in our raw material costs that occurred over the course of the year. The timing and magnitude of any future increases in raw material costs and the impact on selling prices for our products is uncertain at this time.

Off-Balance Sheet Arrangements

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

Contractual Obligations

Our contractual obligations and commitments at September 28, 2019 are as follows:

PAYMENTS DUE BY PERIOD

(In thousands) **Contractual obligations:**	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Raw material purchase commitments[1]	$ 23,763	$ 23,763	$ —	$ —	$ —
Supplemental employee retirement plan obligations	19,426	283	812	1,086	17,245
Operating leases	2,058	1,028	922	108	—
Trade letters of credit	1,633	1,633	—	—	—
Commitment fee on unused portion of credit facility	967	207	414	346	—
Other unconditional purchase obligations[2]	2,787	2,787	—	—	—
TOTAL	**$ 50,634**	**$ 29,701**	**$ 2,148**	**$ 1,540**	**$ 17,245**

(1) Non-cancelable purchase commitments for raw materials.
(2) Contractual commitments for capital expenditures.

Outlook

Looking ahead to 2020, we expect our financial results will be favorably impacted by the continued growth in our construction end-markets and the weather-related deferral of business from last year. The infrastructure-related portion of our business should benefit from higher state and local spending in many of our markets supported by various initiatives such as fuel tax increases, bond issuances and other ballot measures together with increased federal funding through the FAST Act and supplementary measures. The leading indicators and industry forecasts for nonresidential construction indicate that growth rates are likely to moderate but remain positive.

We expect business conditions will remain challenging, however, in view of the surge of low-priced imports that has followed the imposition of the Section 232 tariff on imports of hot-rolled steel wire rod. In addition to continuing our dialogue with the Administration concerning the impact of imports on our business, we will focus on the operational fundamentals of our business: closely managing and controlling our expenses; aligning our production schedules with demand in a proactive manner as there are changes in market conditions to minimize our cash operating costs; and pursuing further improvements in the productivity and effectiveness of all our manufacturing, selling and administrative activities. We also expect gradually increasing contributions from the substantial investments we have made in our facilities in the form of reduced operating costs and additional capacity to support future growth. In addition, we will continue to pursue further acquisitions in our existing businesses that expand our penetration of markets we currently serve or expand our footprint.

The statements contained in this section are forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

Item 7A Quantitative and Qualitative Disclosures About Market Risk

Our cash flows and earnings are subject to fluctuations resulting from changes in commodity prices, interest rates and foreign exchange rates. We manage our exposure to these market risks through internally established policies and procedures and, when appropriate, through the use of derivative financial instruments.

We do not use financial instruments for trading purposes and are not a party to any leveraged derivatives. We monitor our underlying market risk exposures on an ongoing basis and believe 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 rod costs, 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 2019 shipments and average wire rod cost reflected in cost of sales, a 10% increase in the price of wire rod would have resulted in a $31.1 million decrease in our annual 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 September 28, 2019, 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 September 28, 2019. During 2019, a 10% increase or decrease in the value of the U.S. dollar relative to foreign currencies to which we are typically exposed would not have had a material impact on our financial position, results of operations or cash flows.

Item 8 Financial Statements and Supplementary Data

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(b) Supplementary Data

Selected quarterly financial data for 2019 and 2018 is as follows:

FINANCIAL INFORMATION BY QUARTER (UNAUDITED)

	Quarter Ended			
(In thousands, except per share amounts)	**December 29**	**March 30**	**June 29**	**September 28**
2019				
Operating results:				
Net sales	$ 104,110	$ 111,948	$ 126,252	$ 113,403
Gross profit	10,976	7,021	8,236	3,828
Net earnings (loss)	4,126	1,049	2,190	(1,767)
Net earnings (loss) per share:				
Basic	0.21	0.05	0.11	(0.09)
Diluted	0.21	0.05	0.11	(0.09)

	Quarter Ended			
	December 30	**March 31**	**June 30**	**September 29**
2018				
Operating results:				
Net sales	$ 97,741	$ 107,417	$ 126,688	$ 121,371
Gross profit	11,661	15,416	24,186	19,544
Net earnings	8,111	5,879	12,868	9,408
Net earnings per share:				
Basic	0.43	0.31	0.67	0.49
Diluted	0.42	0.31	0.67	0.49

Insteel Industries, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share amounts)	Year Ended		
	September 28, 2019	September 29, 2018	September 30, 2017
Net sales	$ 455,713	$ 453,217	$ 388,871
Cost of sales	425,652	382,410	329,090
Gross profit	30,061	70,807	59,781
Selling, general and administrative expense	24,504	28,304	25,508
Restructuring charges, net	—	—	164
Other expense (income), net	(1,773)	274	53
Interest expense	168	114	136
Interest income	(293)	(515)	(248)
Earnings before income taxes	7,455	42,630	34,168
Income taxes	1,857	6,364	11,620
NET EARNINGS	**$ 5,598**	**$ 36,266**	**$ 22,548**
Net earnings per share:			
Basic	$ 0.29	$ 1.90	$ 1.19
Diluted	0.29	1.88	1.17
Cash dividends declared	0.12	1.12	1.37
Weighted average shares outstanding:			
Basic	19,243	19,079	19,011
Diluted	19,340	19,277	19,217

See accompanying notes to consolidated financial statements.

Insteel Industries, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

	Year Ended		
(In thousands)	**September 28, 2019**	**September 29, 2018**	**September 30, 2017**
Net earnings	$ 5,598	$ 36,266	$ 22,548
Adjustment to defined benefit plan liability, net of			
income taxes of $239, ($44) and ($127)	(754)	139	208
Other comprehensive (loss) income	(754)	139	208
COMPREHENSIVE INCOME	**$ 4,844**	**$ 36,405**	**$ 22,756**

See accompanying notes to consolidated financial statements.

Insteel Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share amounts)	September 28, 2019	September 29, 2018
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 38,181	$ 43,941
Accounts receivable, net	44,182	51,484
Inventories	70,851	94,157
Other current assets	7,370	5,895
Total current assets	160,584	195,477
Property, plant and equipment, net	104,960	106,148
Intangibles, net	8,610	9,703
Goodwill	8,293	8,293
Other assets	10,562	9,913
TOTAL ASSETS	**$ 293,009**	**$ 329,534**
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 21,595	$ 60,059
Accrued expenses	6,818	11,929
Total current liabilities	28,413	71,988
Other liabilities	18,579	15,881
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value Authorized shares: 1,000 None issued	—	—
Common stock, $1 stated value Authorized shares: 50,000 Issued and outstanding shares: 2019, 19,261; 2018, 19,223	19,261	19,223
Additional paid-in capital	74,632	72,852
Retained earnings	154,372	151,084
Accumulated other comprehensive loss	(2,248)	(1,494)
Total shareholders' equity	246,017	241,665
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 293,009**	**$ 329,534**

See accompanying notes to consolidated financial statements.

Insteel Industries, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)(1)	Total Shareholders' Equity
Balance at October 1, 2016	**18,976**	**$ 18,976**	**$ 67,817**	**$ 139,314**	**$ (1,541)**	**$ 224,566**
Net earnings				22,548		22,548
Other comprehensive income(1)					208	208
Stock options exercised	26	26	81			107
Vesting of restricted stock units	39	39	(39)			—
Compensation expense associated with stock-based plans			2,245			2,245
Excess tax benefits from stock-based compensation			537			537
Restricted stock units and stock options surrendered for withholding taxes payable			(824)			(824)
Cash dividends declared				(26,011)		(26,011)
Balance at September 30, 2017	**19,041**	**19,041**	**69,817**	**135,851**	**(1,333)**	**223,376**
Net earnings				36,266		36,266
Other comprehensive income(1)					139	139
Stock options exercised	143	143	1,938			2,081
Vesting of restricted stock units	39	39	(39)			—
Compensation expense associated with stock-based plans			2,078			2,078
Restricted stock units and stock options surrendered for withholding taxes payable			(942)			(942)
Reclassification of stranded tax effects				300	(300)	—
Cash dividends declared				(21,333)		(21,333)
Balance at September 29, 2018	**19,223**	**19,223**	**72,852**	**151,084**	**(1,494)**	**241,665**
Net earnings				5,598		5,598
Other comprehensive loss(1)					(754)	(754)
Stock options exercised						—
Vesting of restricted stock units	38	38	(38)			—
Compensation expense associated with stock-based plans			2,057			2,057
Restricted stock units and stock options surrendered for withholding taxes payable			(239)			(239)
Cash dividends declared				(2,310)		(2,310)
BALANCE AT SEPTEMBER 28, 2019	**19,261**	**$ 19,261**	**$ 74,632**	**$ 154,372**	**$ (2,248)**	**$ 246,017**

(1) Activity within accumulated other comprehensive income (loss) is reported net of related income taxes: 2017 ($127), 2018 ($44) and 2019 $239.

See accompanying notes to consolidated financial statements.

Insteel Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Cash Flows From Operating Activities:			
Net earnings	$ 5,598	$ 36,266	$ 22,548
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	13,553	12,818	11,649
Amortization of capitalized financing costs	65	65	65
Stock-based compensation expense	2,057	2,078	2,245
Deferred income taxes	1,798	(2,807)	2,503
Loss (gain) on sale and disposition of property, plant and equipment	(1,688)	381	64
Increase in cash surrender value of life insurance policies over premiums paid	(187)	(553)	(812)
Net changes in assets and liabilities:			
Accounts receivable, net	7,302	(11,200)	7,105
Inventories	23,306	(12,304)	(10,667)
Accounts payable and accrued expenses	(42,592)	28,234	(11,930)
Other changes	(2,604)	991	(1,930)
Total adjustments	1,010	17,703	(1,708)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**6,608**	**53,969**	**20,840**
Cash Flows From Investing Activities:			
Capital expenditures	(10,512)	(18,449)	(20,575)
Proceeds from property insurance	1,192	—	—
Proceeds from sale of property, plant and equipment	19	—	—
Proceeds from surrender of life insurance policies	67	165	100
Increase in cash surrender value of life insurance policies	(322)	(355)	(405)
Acquisition of business	—	(3,300)	—
NET CASH USED FOR INVESTING ACTIVITIES	**(9,556)**	**(21,939)**	**(20,880)**
Cash Flows From Financing Activities:			
Proceeds from long-term debt	44,333	372	404
Principal payments on long-term debt	(44,333)	(372)	(404)
Cash dividends paid	(2,310)	(21,333)	(26,011)
Cash received from exercise of stock options	—	2,081	107
Payment of employee tax withholdings related to net share transactions	(239)	(942)	(824)
Financing costs	(263)	—	—
NET CASH USED FOR FINANCING ACTIVITIES	**(2,812)**	**(20,194)**	**(26,728)**
Net increase (decrease) in cash and cash equivalents	(5,760)	11,836	(26,768)
Cash and cash equivalents at beginning of period	43,941	32,105	58,873
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 38,181**	**$ 43,941**	**$ 32,105**
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest	$ 49	$ —	$ —
Income taxes, net	1,743	7,777	9,300
Non-cash investing and financing activities:			
Purchases of property, plant and equipment in accounts payable	377	967	465
Restricted stock units and stock options surrendered for withholding taxes payable	239	942	824

See accompanying notes to consolidated financial statements.

Insteel Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Years Ended September 28, 2019, September 29, 2018 and September 30, 2017

Note 1 Description of Business

Insteel Industries, Inc. ("we," "us," "our," "Insteel" or "the Company") is the nation's largest manufacturer of steel wire reinforcing products for concrete construction applications. Insteel is the parent holding company for two wholly-owned subsidiaries, Insteel Wire Products Company ("IWP"), an operating subsidiary, and Intercontinental Metals Corporation, an inactive subsidiary. We manufacture and market prestressed concrete strand ("PC strand") and welded wire reinforcement ("WWR"), including engineered structural mesh, concrete pipe reinforcement and standard welded wire reinforcement. Our products are primarily sold to manufacturers of concrete products and, to a lesser extent, distributors, rebar fabricators and contractors. We sell our products nationwide across the U.S. and, to a much lesser extent, into Canada, Mexico, and Central and South America.

We have evaluated all subsequent events that occurred after the balance sheet date through the time of filing this Annual Report on Form 10-K and concluded there were no events or transactions during this period that required additional recognition or disclosure in our financial statements.

Note 2 Summary of Significant Accounting Policies

Fiscal year

Our fiscal year is the 52 or 53 weeks ending on the Saturday closest to September 30. Fiscal years 2019, 2018 and 2017 were 52-week periods. All references to years relate to fiscal years rather than calendar years.

Principles of consolidation

The consolidated financial statements include the accounts of Insteel and our subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S." and such accounting principles, "GAAP") requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. There is no assurance that actual results will not differ from these estimates.

Cash equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Concentration of credit risk

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

The majority of our accounts receivable are due from customers that are located in the U.S. and are generally not secured by collateral depending upon the creditworthiness of the account. We provide an allowance for doubtful accounts based upon our assessment of the credit risk of specific customers, historical trends and other information. We write off accounts receivable when they become uncollectible. There is no disproportionate concentration of credit risk.

Stock-based compensation

We account for stock-based compensation in accordance with the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation, which requires stock-based compensation expense to be recognized in net earnings based on the fair value of the award on the date of the grant. We account for forfeitures as they occur. We determine the fair value of stock options issued by using a Monte Carlo valuation model at the grant date, which considers a range of assumptions including the expected term, volatility, dividend yield and risk-free interest rate.

Revenue recognition

We recognize revenues when obligations under the terms of a contract with our customers are satisfied, which generally occurs when products are shipped and control is transferred. Revenue is measured as the amount of consideration expected to be received in exchange for our products.

Inventories

Inventories are valued at the lower of weighted average cost (which approximates computation on a first-in, first-out basis) and net realizable value. The valuation of inventory includes the costs for material, labor and manufacturing overhead.

Property, plant and equipment

Property, plant and equipment are recorded at cost or fair market value in the case of the assets acquired through acquisitions, or otherwise at reduced values to the extent there have been asset impairment write-downs. Expenditures for maintenance and repairs are charged directly to expense when incurred, while major improvements are capitalized. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the following estimated useful lives: machinery and equipment, 3 - 15 years; buildings, 10 - 30 years; and land improvements, 5 - 15 years. Depreciation expense was approximately $12.5 million in 2019, $11.6 million in 2018 and $10.5 million in 2017 and reflected in cost of sales and selling, general and administrative expense ("SG&A expense") in the consolidated statements of operations. Capitalized software is amortized over the shorter of the estimated useful life or 5 years and reflected in SG&A expense. No interest costs were capitalized in 2019, 2018 and 2017.

Goodwill

Goodwill is the excess of cost over the fair value of net assets of businesses acquired. Goodwill is not amortized but is tested annually for impairment and whenever events or circumstances change that would make it more likely than not that an impairment may have occurred. We perform our annual impairment analysis as of the first day of the fourth quarter each year. The evaluation of impairment involves comparing the current estimated fair value of the reporting unit to its recorded value, including goodwill. We perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. It may be necessary to perform a quantitative analysis where a discounted cash flow model is used to determine the current estimated fair value of the reporting unit. Key assumptions used to determine the fair value of the reporting unit as part of our annual testing (and any required interim testing) include: (a) expected cash flows for the five-year period following the testing date; (b) an estimated terminal value using a terminal year growth rate based on the growth prospects of the reporting unit; (c) a discount rate based on our estimated after-tax weighted average cost of capital; and (d) a probability-weighted scenario approach by which varying cash flows are assigned to alternative scenarios based on their likelihood of occurrence. In developing these assumptions, we consider historical and anticipated future results, general economic and market conditions, the impact of planned business and operational strategies and all available information at the time the fair value of the reporting unit is estimated. Assumptions in estimating future cash flows are subject to a high degree of judgment and complexity. Changes in assumptions and estimates may affect the fair value of goodwill and could result in impairment charges in future periods. Based on the results of our impairment analysis, no goodwill impairment losses were recognized in the consolidated statements of operations for 2019. Subsequent to the analysis, there have been no events or circumstances that indicate any potential impairment of goodwill.

Other assets

Other assets consist principally of capitalized financing costs related to our revolving credit facility and the cash surrender value of life insurance policies. Capitalized financing costs are amortized using the straight-line method, which approximates the effective interest method over the term of the related credit agreement and are reflected in interest expense in the consolidated statements of operations.

Long-lived assets

Long-lived assets include property, plant and equipment and identifiable intangible assets with definite useful lives. Finite-lived intangible assets are amortized over their estimated useful lives. Our intangible assets consist of customer relationships, developed technology and know-how, non-competition agreements and a trade name, and are being amortized on a straight-line basis over their finite useful lives (see Note 7 to the consolidated financial statements). We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. When we determine that the carrying value of such assets may not be recoverable, we measure recoverability based on the undiscounted cash flows expected to be generated by the related asset or asset group. If it is determined that an impairment loss has occurred, the loss is recognized in the period in which it is incurred and is calculated as the difference between the carrying value and the present value of estimated future net cash flows or comparable market values. There were no impairment losses in 2019, 2018 and 2017.

Fair value of financial instruments

The carrying amounts for cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate fair value because of their short maturities.

Income taxes

Income taxes are based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. We assess the need to establish a valuation allowance against deferred tax assets to the extent we no longer believe it is more likely than not that the tax assets will be fully realized.

Earnings per share

Basic earnings per share ("EPS") are computed by dividing earnings available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS are computed by dividing earnings available to common shareholders by the weighted average number of shares of common stock and other dilutive equity securities outstanding during the period. Securities that have the effect of increasing EPS are considered to be antidilutive and are not included in the computation of diluted EPS.

Note 3 Recent Accounting Pronouncements

Current Adoptions

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15 "Statement of Cash Flows Topic 230: Classification of Certain Cash Receipts and Cash Payments." ASU No. 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing differences in the presentation of these items. The amendments in ASU No. 2016-15 became effective for us in the first quarter and were adopted retrospectively. The adoption of this update did not impact our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers," as subsequently amended, which supersedes nearly all existing revenue recognition guidance under GAAP. ASU No. 2014-09 provides that an entity recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. We adopted ASU 2014-09 during the first quarter using the modified retrospective method. The adoption of this update did not significantly change our timing for recognizing revenue nor materially impact our consolidated financial statements (see Note 4).

Future Adoptions

In May 2017, the FASB issued ASU No. 2017-09 "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." ASU No. 2017-09 was issued to clarify and reduce both (i) diversity in practice and (ii) cost and complexity when applying its guidance to changes in the terms and conditions of a share-based payment award. ASU No. 2017-09 will become effective for us in the first quarter of fiscal 2020. The adoption of this update will not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. ASU No. 2017-04 will become effective for us in the first quarter of fiscal 2021 and early adoption is permitted. We are evaluating the impact that the adoption of this update will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 "Leases," which will replace the guidance in Accounting Standards Codification ("ASC") Topic 840. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset. ASU No. 2016-02 will become effective for us in the first quarter of fiscal 2020. In July 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements," which provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. The amendment has the same effective date and transition requirements as ASU No. 2016-02. We expect the adoption of this guidance will increase our lease liability by approximately $1.9 million with a corresponding increase to recognize our right-of-use assets by approximately $1.9 million, with no material impact to our consolidated statements of operations. Additionally, the adoption of Topic 842 is expected to significantly expand the disclosures pertaining to leases in our notes to the consolidated financial statements.

Note 4 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 have elected to apply the practical expedient provided for in ASU No. 2014-09 and not disclose information regarding remaining performance obligations that have original expected durations of one year or less.

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 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 bill the customer in advance of shipments. Contract costs are not significant and are recognized as incurred. Contract assets and liabilities were not material as of September 28, 2019.

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 to provide for the estimated amount of 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.

See Note 14 for the disaggregation of our net sales by product line and geography.

Note 5 Restructuring Charges

In 2014 we purchased substantially all of the assets associated with the PC strand business of American Spring Wire Corporation ("ASW Acquisition"). Subsequent to the ASW Acquisition, in 2014, we incurred employee separation costs for staffing reductions associated with the acquisition. In February 2015, we elected to consolidate our PC strand operations with the closure of the Newnan, Georgia facility that had been acquired through the ASW Acquisition, which was completed in March 2015.

Following is a summary of the restructuring activities and associated costs that were incurred during 2017:

(In thousands)	Equipment Relocation Costs	Severance and Other Employee Separation Costs	Total
Liability as of October 1, 2016	$ 31	$ 239	$ 270
Restructuring charges	164	—	164
Cash payments	(195)	(239)	(434)
Non-cash charges	—	—	—
LIABILITY AS OF SEPTEMBER 30, 2017	**$ —**	**$ —**	**$ —**

Note 6 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 September 28, 2019 and September 29, 2018, 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 September 28, 2019:			
Current assets:			
Cash equivalents	$ 37,826	$ 37,826	$ —
Other assets:			
Cash surrender value of life insurance policies	10,211	—	10,211
TOTAL	**$ 48,037**	**$ 37,826**	**$ 10,211**
As of September 29, 2018:			
Current assets:			
Cash equivalents	$ 44,257	$ 44,257	$ —
Other assets:			
Cash surrender value of life insurance policies	9,769	—	9,769
TOTAL	**$ 54,026**	**$ 44,257**	**$ 9,769**

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 September 28, 2019 and September 29, 2018, we had no nonfinancial assets that are required to be measured at fair value on a nonrecurring basis. The carrying amounts of accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term maturities of these financial instruments.

Note 7 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 Value
As of September 28, 2019:				
Customer relationships	16.9	$ 9,070	$ (2,207)	$ 6,863
Developed technology and know-how	20.0	1,800	(461)	1,339
Non-competition agreements	5.0	1,800	(1,466)	334
Trade name	4.0	140	(66)	74
		$ 12,810	**$ (4,200)**	**$ 8,610**
As of September 29, 2018:				
Customer relationships	16.9	$ 9,070	$ (1,598)	$ 7,472
Developed technology and know-how	20.0	1,800	(371)	1,429
Non-competition agreements	5.0	3,687	(2,994)	693
Trade name	4.0	140	(31)	109
		$ 14,697	**$ (4,994)**	**$ 9,703**

Amortization expense for intangibles was $1.1 million in 2019, $1.3 million in 2018 and $1.2 million in 2017. Amortization expense for the next five years, assuming no change in the estimated useful lives of identified intangible assets, is $924,000 in 2020, $809,000 in 2021, $770,000 in 2022, $705,000 in 2023 and $699,000 in 2024. We completed the acquisition of a business during 2018, and the effects of the purchase price allocation for this transaction on the accompanying consolidated financial statements were not material.

Note 8 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 May 2019, we entered into a new credit agreement, which amended and restated in its entirety the previous agreement pertaining to the revolving credit facility that had been in effect since June 2010. The new credit agreement, among other changes, extended the maturity date of the Credit Facility from May 13, 2020 to May 15, 2024 and provided for an incremental 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 September 28, 2019, no borrowings were outstanding on the Credit Facility, $82.9 million of borrowing capacity was available and outstanding letters of credit totaled $1.6 million. As of September 29, 2018, there were no borrowings outstanding on the Credit Facility.

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 LIBOR rate plus the excess of the then-applicable margin for LIBOR loans over the then-applicable margin for index rate loans, or (2) at our election, a LIBOR rate, 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 LIBOR 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 September 28, 2019, the applicable interest rate margins on the Credit Facility were 0.25% for index rate loans and 1.25% for LIBOR 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 September 28, 2019, 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 $65,000 in 2019, 2018 and 2017. We expect the amortization of capitalized financing costs to approximate the following amounts for the next five fiscal years:

Fiscal year	*In thousands*
2020	$ 67
2021	65
2022	65
2023	65
2024	41

Note 9 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 17, 2015, our shareholders approved the 2015 Equity Incentive Plan of Insteel Industries, Inc. (the “2015 Plan”), which authorizes up to 900,000 shares of our common stock for future grants under the plan. The 2015 Plan, which expires on February 17, 2025, replaced the 2005 Equity Incentive Plan of Insteel Industries, Inc., which expired on February 15, 2015. As of September 28, 2019, there were 143,000 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 the plan generally vest over three years and expire ten years from the date of the grant. Compensation expense associated with stock options was $889,000 in 2019, $906,000 in 2018 and $1.0 million in 2017. As of September 28, 2019, there was $282,000 of unrecognized compensation cost related to unvested options which is expected to be recognized over a weighted average period of 1.64 years.

The fair value of each option award granted is estimated on the date of grant using a Monte Carlo valuation model. The weighted-average estimated fair values of stock options granted during 2019, 2018 and 2017 were $7.15, $12.06 and $11.08 per share, respectively, based on the following weighted-average assumptions:

	Year Ended		
	September 28, 2019	September 29, 2018	September 30, 2017
Expected term (in years)	4.59	4.79	5.14
Risk-free interest rate	2.03%	2.71%	1.98%
Expected volatility	42.79%	37.32%	38.32%
Expected dividend yield	0.56%	0.37%	0.37%

The assumptions utilized in the Monte Carlo valuation model are evaluated and revised, as necessary, to reflect market conditions and actual historical experience. The expected term for options was based on the results of a Monte Carlo simulation model, using the model's estimated fair value as an input to the Black-Scholes-Merton model, and then solving for the expected term. The risk-free interest rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility was derived using a term structure based on historical volatility and the volatility implied by exchange-traded options on our common stock. The dividend yield was calculated based on our annual dividend as of the option grant date.

The following table summarizes stock option activity:

(Share amounts in thousands)	Options Outstanding	Exercise Price Per Share: Range	Exercise Price Per Share: Weighted Average	Contractual Term - Weighted Average	Aggregate Intrinsic Value *(in thousands)*
Outstanding at October 1, 2016	**371**	**$9.16 - $34.49**	**$ 20.81**		
Granted	88	26.75 - 37.06	30.93		
Exercised	(67)	9.16 - 23.95	19.05		$ 1,212
Outstanding at September 30, 2017	**392**	**9.16 - 37.06**	**23.40**		
Granted	77	29.69 - 41.85	34.84		
Exercised	(196)	9.16 - 37.06	19.68		3,866
Forfeited	(9)	23.95 - 37.06	29.88		
Outstanding at September 29, 2018	**264**	**10.23 - 41.85**	**29.25**		
Granted	129	18.25 - 21.57	19.74		
Exercised	(5)	18.05 - 26.75	23.95		21
OUTSTANDING AT SEPTEMBER 28, 2019	**388**	**10.23 - 41.85**	**26.16**	**7.81 years**	**370**
Vested and anticipated to vest in the future at September 28, 2019	384		26.17	7.79 years	366
Exercisable at September 28, 2019	184		27.62	6.31 years	195

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. RSU grants and compensation expense are as follows:

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Restricted stock unit grants:			
Units	61	35	37
Market value	$ 1,225	$ 1,175	$ 1,180
Compensation expense	1,168	1,172	1,238

As of September 28, 2019, there was $482,000 of unrecognized compensation cost related to unvested RSUs which is expected to be recognized over a weighted average period of 1.74 years.

The following table summarizes RSU activity:

(Unit amounts in thousands)	Restricted Stock Units Outstanding		Weighted Average Grant Date Fair Value
Balance, October 1, 2016	145	$	22.35
Granted	37		31.95
Released	(54)		20.43
Balance, September 30, 2017	**128**		**25.92**
Granted	35		33.52
Forfeited	(3)		29.60
Released	(57)		22.26
Balance, September 29, 2018	**103**		**30.40**
Granted	61		20.18
Released	(49)		27.64
BALANCE, SEPTEMBER 28, 2019	**115**		**26.16**

Note 10 Income Taxes

The components of the provision for income taxes are as follows:

	Year Ended					
(Dollars in thousands)	September 28, 2019		September 29, 2018		September 30, 2017	
Current:						
Federal	$	(126)	$	8,265	$	8,269
State		185		906		848
		59		9,171		9,117
Deferred:						
Federal		1,649		(2,862)		2,455
State		149		55		48
		1,798		(2,807)		2,503
INCOME TAXES	**$**	**1,857**	**$**	**6,364**	**$**	**11,620**
EFFECTIVE INCOME TAX RATE		**24.9%**		**14.9%**		**34.0%**

The reconciliation between income taxes computed at the federal statutory rate and the provision for income taxes is as follows:

	Year Ended								
(Dollars in thousands)	September 28, 2019			September 29, 2018			September 30, 2017		
Provision for income taxes at federal statutory rate	$	1,566	21.0%	$	10,444	24.5%	$	11,959	35.0%
State income taxes, net of federal tax benefit		297	4.0		739	1.7		598	1.8
Stock-based compensation		90	1.2		(634)	(1.5)		—	—
Valuation allowance		24	0.3		(18)	(0.0)		(29)	(0.1)
Federal tax return true-up		(142)	(1.9)		(147)	(0.3)		—	—
Change in federal tax rate - Tax Cuts and Jobs Act		—	—		(3,307)	(7.8)		—	—
Qualified production activities deduction		—	—		(832)	(2.0)		(768)	(2.2)
Other, net		22	0.3		119	0.3		(140)	(0.5)
PROVISION FOR INCOME TAXES	**$**	**1,857**	**24.9%**	**$**	**6,364**	**14.9%**	**$**	**11,620**	**34.0%**

The components of deferred tax assets and liabilities are as follows:

(In thousands)	September 28, 2019		September 29, 2018	
Deferred tax assets:				
Defined benefit plans	$	2,661	$	2,302
Stock-based compensation		1,259		1,120
Accrued expenses and asset reserves		1,207		1,939
Federal net operating loss carryforward		363		—
State net operating loss carryforwards and tax credits		120		233
Valuation allowance		(257)		(233)
DEFERRED TAX ASSETS		**5,353**		**5,361**
Deferred tax liabilities:				
Plant and equipment		(10,625)		(9,490)
Prepaid insurance		(1,311)		(1,041)
Goodwill		(317)		(170)
DEFERRED TAX LIABILITIES		**(12,253)**		**(10,701)**
NET DEFERRED TAX LIABILITY	**$**	**(6,900)**	**$**	**(5,340)**

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted, which, among other changes, reduced the federal statutory corporate tax rate from 35% to 21% effective January 1, 2018. Since our fiscal year ends on the Saturday closest to September 30 rather than the calendar year, we are subject to IRS rules relating to transitional income tax rates. Based on these rules, our federal statutory rate was 24.5% for fiscal 2018 and is 21% for fiscal 2019 and beyond. We remeasured our deferred tax assets and liabilities and adjusted our estimated annual federal income tax rate to incorporate the lower corporate tax rate provided for under the Act in our first quarter tax provision for fiscal 2018, which resulted in a $3.3 million reduction in income tax expense for 2018.

As of September 28, 2019 and September 29, 2018, we recorded deferred tax liabilities (net of valuation allowances) of $6.9 million and $5.3 million, respectively, in other liabilities on our consolidated balance sheet. We have $1.7 million of federal net operating loss carryforwards ("NOLs") and $2.2 million of state NOLs that begin to expire in 2022, but principally expire between 2022 and 2034. We have also recorded deferred tax assets of $8,000 for state tax credits that expire in 2020.

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 September 28, 2019, we recorded a valuation allowance of $257,000 pertaining to various state NOLs and tax credits 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 and tax credits against which an allowance had previously been provided or determine that such utilization was more likely than not. The $24,000 increase in the valuation allowance during 2019 is primarily due to state NOLs for which a tax benefit is not expected to be realized partially offset by the expiration of state tax credits for which an allowance had been previously recorded.

As of September 28, 2019, we had no material, known tax exposures that required the establishment of contingency reserves for uncertain tax positions.

We classify interest and penalties related to unrecognized tax benefits as part of income tax expense. There were no interest and penalties related to unrecognized tax benefits incurred during 2019, 2018 and 2017.

We file U.S. federal income tax returns as well as state and local income tax returns in various jurisdictions. Federal and various state tax returns filed subsequent to 2014 remain subject to examination.

Note 11 Employee Benefit Plans

Supplemental employee retirement plan

We have Retirement Security Agreements (each, a "SERP") with certain of our employees (each, a "Participant"). Under the SERPs, 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 $1/360^{th}$ for each month short of 30 years that the Participant was employed by us.

The reconciliation of the projected benefit obligation, plan assets, funded status and amounts recognized for the SERPs in our consolidated balance sheets is as follows:

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 9,749	$ 9,389	$ 9,159
Service cost	297	310	344
Interest cost	384	345	338
Actuarial loss (gain)	1,133	(33)	(162)
Distributions	(285)	(262)	(290)
BENEFIT OBLIGATION AT END OF YEAR	**$ 11,278**	**$ 9,749**	**$ 9,389**
Change in plan assets:			
Actual employer contributions	$ 285	$ 262	$ 290
Actual distributions	(285)	(262)	(290)
PLAN ASSETS AT FAIR VALUE AT END OF YEAR	**$ –**	**$ –**	**$ –**
Reconciliation of funded status to net amount recognized:			
Funded status	$ (11,278)	$ (9,749)	$ (9,389)
NET AMOUNT RECOGNIZED	**$ (11,278)**	**$ (9,749)**	**$ (9,389)**
Amounts recognized in accumulated other comprehensive loss:			
Unrecognized net loss	$ 2,958	$ 1,966	$ 2,149
NET AMOUNT RECOGNIZED	**$ 2,958**	**$ 1,966**	**$ 2,149**
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):			
Net loss (gain)	$ 1,133	$ (33)	$ (162)
Amortization of net loss	(140)	(150)	(174)
TOTAL RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS)	**$ 993**	**$ (183)**	**$ (336)**

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

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Service cost	$ 297	$ 310	$ 344
Interest cost	384	345	338
Amortization of net loss	140	150	174
NET PERIODIC PENSION COST	**$ 821**	**$ 805**	**$ 856**

The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic pension cost during 2020 is $293,000.

The assumptions used in the valuation of the SERPs are as follows:

	Measurement Date		
	September 28, 2019	September 29, 2018	September 30, 2017
Assumptions at year-end:			
Discount rate	3.00%	4.00%	3.75%
Rate of increase in compensation levels	3.00%	3.00%	3.00%

The assumed discount rate is established as of our fiscal year-end measurement date. In establishing the discount rate, we review published market indices of high-quality debt securities, adjusted as appropriate for duration, and high-quality bond yield curves applicable to the expected benefit payments of the SERPs. The SERPs expected rate of increase in compensation levels is based on the anticipated increases in annual compensation.

The projected benefit payments under the SERPs are as follows:

Fiscal year(s)		*In thousands*
2020	$	283
2021		250
2022		562
2023		562
2024		524
2025 - 2029		4,476

Retirement savings plan

In 1996, we adopted the Retirement Savings Plan of Insteel Industries, Inc. (the "Plan") to provide retirement benefits and stock ownership for our employees. The Plan is an amendment and restatement of our Employee Stock Ownership Plan. As allowed under Sections 401(a) and 401(k) of the Internal Revenue Code, the Plan provides for tax-deferred salary deductions for eligible employees.

The Plan allows for discretionary contributions to be made by us as determined by the Board of Directors, which are allocated among eligible participants based on their compensation relative to the total compensation of all participants. Employees are permitted to contribute up to 75% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Code. We match employee contributions up to 100% of the first 1% and 50% of the next 5% of eligible compensation that is contributed by employees. Our contributions to the Plan were $1.2 million in 2019 and $1.1 million in 2018 and 2017.

Voluntary Employee Beneficiary Associations ("VEBA")

We have a VEBA which allows both us and our employees to make contributions to pay for medical costs. Our contributions to the VEBA were $5.8 million in 2019, $5.1 million in 2018 and $5.6 million in 2017. We are primarily self-insured for our employee's healthcare costs, carrying stop-loss insurance coverage for individual claims in excess of $175,000 per benefit plan year. Our self-insurance liabilities are based on the total estimated costs of claims filed and claims incurred but not reported, less amounts paid against such claims. We review current and historical claims data in developing our estimates.

Note 12 Commitments and Contingencies

Insurance recoveries

We maintain general liability, business interruption and replacement cost property insurance coverage on our facilities.

In August 2018, a transformer outage and electrical fire occurred at our Dayton, Texas manufacturing facility, which resulted in the temporary curtailment of operations. Alternative power arrangements for the facility were subsequently made that allowed operations to continue until permanent repairs were completed during the first quarter of this year. We reached a final settlement on the property damage and business interruption claim with our insurance carrier in the third quarter. During 2019, we received $2.2 million of insurance proceeds related to the claim that was partially applied against the beginning receivable balance of $462,000 with the remainder recorded in other income ($1.1 million), cost of sales ($645,000) and SG&A expense ($48,000) on the consolidated statements of operations. During 2018, we received $183,000 of insurance proceeds related to the claim and recorded a $462,000 receivable for the anticipated insurance proceeds associated with the expenses incurred as of the end of the year.

In August 2017, operations at our manufacturing facility located in Dayton, Texas were adversely affected by hurricane Harvey. We reached a final settlement on the property damage and business interruption claim with our insurance carrier in the first quarter of 2019. During 2019, we received $150,000 of proceeds related to this claim of which $98,000 was recorded in other income on the consolidated statements of operations. During 2018, we received $439,000 of insurance proceeds related to the claim and recorded a $52,000 receivable for the anticipated insurance proceeds associated with the expenses that were incurred and capital outlays required to replace property and equipment damaged in the storm. The insurance proceeds attributable to the additional expenses incurred were recorded in cost of sales ($439,000), SG&A expense ($26,000) and other income ($26,000) on the consolidated statements of operations.

The insurance proceeds attributable to the property and equipment damaged are reported in cash flows from investing activities and all other insurance proceeds received are reported in cash flows from operating activities on the consolidated statements of cash flows.

Leases and purchase commitments

We lease a portion of our equipment under operating leases that expire at various dates through 2024. Additionally, we leased our facility in Houston, Texas through September 30, 2017 and subsequently exercised the $4.9 million purchase option under the lease in October 2017. Under most lease agreements, we pay insurance, taxes and maintenance. Rental expense for operating leases was $1.6 million in 2019, $1.5 million in 2018 and $1.8 million in 2017. As of September 28, 2019, minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 2020 $1.0 million; 2021, $666,000; 2022, $256,000; 2023, $61,000 and 2024 and beyond, $47,000.

As of September 28, 2019, we had $23.8 million in non-cancelable purchase commitments for raw material extending as long as approximately 100 days and $2.8 million of contractual commitments for the purchase of certain equipment that had not been fulfilled and are not reflected in our consolidated financial statements.

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 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.

Severance and change of control agreements

We have entered into severance agreements with our Chief Executive Officer and Chief Financial Officer that provide them with certain termination benefits in the event their employment with us is terminated without cause. The initial term of each agreement is two years and they automatically renew for successive one year terms unless we or the executive provide notice of termination as specified in the agreement. In the event of termination of the executive's employment without cause, these agreements provide that they would receive termination benefits equal to one and one-half times their annual base salary in effect on the termination date and the continuation of health and welfare benefits for eighteen months. In addition, all of the executive's stock options and restricted stock would vest immediately, and outplacement services would be provided.

We have also entered into change in control agreements with key members of management, including our executive officers, which specify the terms of separation in the event that termination of their employment followed a change in control. The initial term of each agreement is two years and they automatically renew for successive one year terms unless we or the executive provide notice of termination as specified in the agreement. The agreements do not provide assurances of continued employment or specify the terms of an executive's termination should one occur in the absence of a change in control. The compensation payable under the terms of these agreements differs between the Chief Executive Officer and Chief Financial Officer, and the other covered executives. In the event of termination of the Chief Executive Officer or the Chief Financial Officer within two years of a change of control, they would receive severance benefits equal to two times base compensation, two times the average bonus for the prior three years and the continuation of health and welfare benefits for two years. In the event of such a termination of the other key members of management, including our other two executive officers, within two years of a change of control, they would receive severance benefits equal to one times base compensation, one times the average bonus for the prior three years and the continuation of health and welfare benefits for one year. In addition, for any covered executive that is terminated within two years of a change of control, all of their stock options and restricted stock would vest immediately, and outplacement services would be provided.

Note 13 Earnings Per Share

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

	Year Ended		
(In thousands, except per share amounts)	September 28, 2019	September 29, 2018	September 30, 2017
Net earnings	$ 5,598	$ 36,266	$ 22,548
Basic weighted average shares outstanding	19,243	19,079	19,011
Dilutive effect of stock-based compensation	97	198	206
Diluted weighted average shares outstanding	19,340	19,277	19,217
Net earnings per share:			
Basic	$ 0.29	$ 1.90	$ 1.19
Diluted	0.29	1.88	1.17

Options and RSUs that were antidilutive and not included in the diluted EPS calculation amounted to 240,000 shares in 2019, 83,000 shares in 2018 and 76,000 shares in 2017.

Note 14 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: PC strand and WWR. Based on the criteria specified in ASC Topic 280, *Segment Reporting*, we have one reportable segment.

Our net sales and long-lived assets (consisting of net property, plant and equipment, the cash surrender value of life insurance policies, goodwill and intangible assets) by geographic region are as follows:

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Net sales:			
United States	$ 454,373	$ 451,418	$ 387,199
Foreign	1,340	1,799	1,672
TOTAL	**$ 455,713**	**$ 453,217**	**$ 388,871**
Long-lived assets:			
United States	$ 132,074	$ 133,913	$ 122,574
Foreign	—	—	—
TOTAL	**$ 132,074**	**$ 133,913**	**$ 122,574**

Our net sales by product line are as follows:

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Net sales:			
Welded wire reinforcement	$ 290,423	$ 273,658	$ 239,522
Prestressed concrete strand	165,290	179,559	149,349
TOTAL	**$ 455,713**	**$ 453,217**	**$ 388,871**

There were no customers that accounted for 10% or more of our net sales in 2019, 2018 and 2017.

Note 15 Related Party Transactions

Sales to a company affiliated with one of our former directors amounted to $716,000 in 2019, $699,000 in 2018 and $622,000 in 2017.

Note 16 Other Financial Data

Balance sheet information:

(In thousands)	September 28, 2019		September 29, 2018	
Accounts receivable, net:				
Accounts receivable	$	44,436	$	51,779
Less allowance for doubtful accounts		(254)		(295)
TOTAL	**$**	**44,182**	**$**	**51,484**
Inventories:				
Raw materials	$	27,667	$	61,008
Work in process		4,885		4,779
Finished goods		38,299		28,370
TOTAL	**$**	**70,851**	**$**	**94,157**
Other current assets:				
Prepaid insurance	$	4,545	$	3,845
Income taxes receivable		1,215		—
Other		1,610		2,050
TOTAL	**$**	**7,370**	**$**	**5,895**
Other assets:				
Cash surrender value of life insurance policies	$	10,211	$	9,769
Capitalized financing costs, net		237		40
Other		114		104
TOTAL	**$**	**10,562**	**$**	**9,913**
Property, plant and equipment, net:				
Land and land improvements	$	14,548	$	14,438
Buildings		56,404		54,684
Machinery and equipment		165,609		160,068
Construction in progress		5,285		9,672
		241,846		238,862
Less accumulated depreciation		(136,886)		(132,714)
TOTAL	**$**	**104,960**	**$**	**106,148**
Accrued expenses:				
Salaries, wages and related expenses	$	2,463	$	6,775
Property taxes		1,820		1,585
Customer rebates		1,381		1,531
Sales allowance reserves		544		804
Workers' compensation		112		113
Income taxes		—		469
Other		498		652
TOTAL	**$**	**6,818**	**$**	**11,929**
Other liabilities:				
Deferred compensation	$	11,679	$	10,541
Deferred income taxes		6,900		5,340
TOTAL	**$**	**18,579**	**$**	**15,881**

Note 17 Product Warranties

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

Note 18 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 particular amount of 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. As of September 28, 2019, there was $24.8 million remaining available for future share repurchases under this Authorization. There were no share repurchases during 2019, 2018 and 2017.

Report of Independent Registered Public Accounting Firm Consolidated Financial Statements

Board of Directors and Shareholders

Insteel Industries, Inc.:

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of **Insteel Industries, Inc.** (a North Carolina corporation) and subsidiaries (the "Company") as of September 28, 2019 and September 29, 2018, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended September 28, 2019, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 28, 2019 and September 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 28, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of September 28, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated October 25, 2019 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Grant Thornton LLP

We have served as the Company's auditor since fiscal 2002.

Charlotte, North Carolina

October 25, 2019

Schedule II - Valuation and Qualifying Accounts Years Ended September 28, 2019, September 29, 2018 and September 30, 2017

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Year Ended		
(In thousands)	September 28, 2019	September 29, 2018	September 30, 2017
Balance, beginning of year	$ 295	$ 201	$ 291
Amounts charged to earnings	(41)	100	(57)
Write-offs, net of recoveries	—	(6)	(33)
BALANCE, END OF YEAR	**$ 254**	**$ 295**	**$ 201**

Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 28, 2019. 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 Commission's rules and forms. Furthermore, we concluded that our disclosure controls and procedures were effective to ensure that such 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes: (1) maintaining records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets; (2) providing reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) providing reasonable assurance that unauthorized acquisition, use or disposition of assets that could have a material effect on financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting can only provide reasonable assurance that a misstatement of financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 Internal Control – Integrated Framework. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of September 28, 2019. During the quarter ended September 28, 2019, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting as of September 28, 2019, which appears below.

Report of Independent Registered Public Accounting Firm Internal Control Over Financial Reporting

Board of Directors and Shareholders

Insteel Industries, Inc.:

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of **Insteel Industries, Inc.** (a North Carolina corporation) and subsidiaries (the "Company") as of September 28, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended September 28, 2019, and our report dated October 25, 2019 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Grant Thornton LLP

Charlotte, North Carolina

October 25, 2019

Item 9B Other Information

None.

PART III

Item 10 Directors, Executive Officers and Corporate Governance

The information called for by this item and not presented herein appears under the captions “Item Number One: Election of Directors”, “Security Ownership of Directors and Executive Officers – Delinquent Section 16(a) Reports” and “Corporate Governance Guidelines and Board Matters” in our Proxy Statement for the 2020 Annual Meeting of Shareholders and is incorporated herein by reference. Information on executive officers appears under the caption “Executive Officers of the Company” in Part I of this report.

We have adopted a Code of Business Conduct that applies to all directors, officers and employees, which is available on our website at *https://insteelgcs.gcs-web.com/corporate-governance/governance-documents*. To the extent permissible under applicable law (the rules of the SEC or Nasdaq listing standards), we intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K by posting on our website any amendment or waiver to a provision of our Code of Business Conduct that requires disclosure under applicable law (the rules of the SEC or Nasdaq listing standards). Our website does not constitute part of this Annual Report on Form 10-K.

Item 11 Executive Compensation

The information called for by this item appears under the captions “Executive Compensation”, “Compensation Committee Interlocks and Insider Participation” and “Director Compensation” in our Proxy Statement for the 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by this item appears under the captions “Security Ownership of Certain Beneficial Owners”, “Security Ownership of Directors and Executive Officers” and “Equity Compensation Plan Information” in our Proxy Statement for the 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13 Certain Relationships and Related Transactions, and Director Independence

The information called for by this item appears under the captions “Certain Relationships and Related Person Transactions” and “Corporate Governance Guidelines and Board Matters” in our Proxy Statement for the 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14 Principal Accounting Fees and Services

The information called for by this item appears under the caption “Item Number Four: Ratification of the Appointment of Grant Thornton LLP” in our Proxy Statement for the 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15 Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The financial statements as set forth under Item 8 are filed as part of this report.

(a)(2) Financial Statement Schedules

Supplemental Schedule II - Valuation and Qualifying Accounts appears on page 43 of this report.

All other schedules have been omitted because they are either not required or not applicable.

(a)(3) Exhibits

The list of exhibits filed as part of this annual report is set forth on the Exhibit Index immediately preceding the signatures to this annual report and is incorporated herein by reference.

(b) Exhibits

See Exhibit Index on pages 47-49.

(c) Financial Statement Schedules

See Item 15(a)(2) above.

Item 16 Form 10-K Summary

None.

Exhibit Index

Exhibit Number	Description
2.1	Asset Purchase Agreement between Insteel Wire Products Company and American Spring Wire Corporation dated as of August 9, 2014 (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on August 11, 2014).
3.1	Restated Articles of Incorporation for the Company (incorporated by reference to Exhibit 3.1 of the Company’s Registration Statement on Form S-1 filed on May 2, 1985).
3.2	Articles of Amendment to the Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K dated May 3, 1988).
3.3	Articles of Amendment to the Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended April 3, 1999 filed on May 14, 1999).
3.4	Articles of Amendment to the Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended April 3, 2010 filed on April 26, 2010).
3.5	Bylaws of the Company (as last amended December 19, 2016) (incorporated by reference to Exhibit 3.1 of the Company’s Quarterly Report on Form 10-Q filed on January 19, 2017).
4.1	Rights Agreement dated April 27, 1999 by and between the Company and First Union National Bank, as Rights Agent (incorporated by reference to Exhibit 99.1 of the Company’s Registration Statement on Form 8-A filed on May 7, 1999).
4.2	Amendment No. 1 to the Rights Agreement dated as of April 25, 2009, between the Company and American Stock Transfer & Trust Company, LLC (as Successor Rights Agent to First Union National Bank) (incorporated by reference to Exhibit 4.2 of the Company’s Current Report on Form 8-K filed on April 27, 2009).
4.3	Amendment No. 2 to the Rights Agreement, dated as of November 15, 2018, by and between the Company and American Stock Transfer & Trust Company, LLC (as Successor Rights Agent to First union National Bank) (incorporated by reference to Exhibit 4.1 of the Company’s Current Report on Form 8-K filed on November 19, 2018)
4.4	Description of Securities
10.1	Second Amended and Restated Credit Agreement dated as of June 2, 2010, among Insteel Wire Products Company, as Borrower; Insteel Industries, Inc., as a Credit Party; Intercontinental Metals Corporation, as a Credit Party; and General Electric Capital Corporation, as Agent and Lender (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed on April 26, 2011).
10.2	First Amendment to Second Amended and Restated Credit Agreement dated as of February 6, 2012, among Insteel Wire Products Company, as Borrower; Insteel Industries, Inc. as a Credit Party; Intercontinental Metals Corporation, as a Credit Party; and General Electric Capital Corporation, as Agent and Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 6, 2012).
10.3	Second Amendment to Second Amended and Restated Credit Agreement dated as of May 13, 2015, among Insteel Wire Products Company, as Borrower; Insteel Industries, Inc., as a Credit Party; Intercontinental Metals Corporation, as a Credit Party; and General Electric Capital Corporation, as Agent and Lender (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 14, 2015).
10.4	Third Amended and Restated Credit Agreement dated as of May 15, 2019, among Insteel Wire Products Company, as Borrower; Insteel Industries, Inc., as a Credit Party; and Wells Fargo Bank, as Agent and Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 16, 2019).
10.5	Guaranty and Second Amended and Restated Security Agreement dated as of May 15, 2019, among Insteel Industries, Inc., Insteel Wire Products Company, Intercontinental Metals Corporation, and Wells Fargo Bank, as administrative agent (incorporated by reference to Exhibit 10.2 of the Company’s Current Report on Form 8-K filed May 16, 2019)
10.6*	Form of Amended and Restated Change in Control Severance Agreements between the Company and each of H.O. Woltz III and Michael C. Gazmarian, respectively, each dated November 14, 2006; each agreement is substantially identical to the form in all material respects (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on November 16, 2006).
10.7*	Form of Amended and Restated Severance Agreements with H.O. Woltz III and Michael C. Gazmarian dated November 14, 2006 (each agreement is substantially identical to the form in all material respects) (incorporated by reference to Exhibit 99.6 of the Company's Current Report on Form 8-K filed on November 16, 2006).

Exhibit Number	Description
10.8*	Change in Control Severance Agreement between the Company and James F. Petelle dated November 14, 2006 (incorporated by reference to Exhibit 99.3 of the Company’s Current Report on Form 8-K filed on November 16, 2006).
10.9*	Amended and Restated Retirement Security Agreement by and between the Company and H.O. Woltz III dated September 19, 2007 (incorporated by reference to Exhibit 10.2 of the Company’s Current Report on Form 8-K filed on September 21, 2007).
10.10*	Form of Retirement Security Agreement between the Company and each of Michael C. Gazmarian, James F. Petelle and Richard T. Wagner, respectively, dated September 19, 2007; each agreement is substantially identical to the form in all material respects (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on September 21, 2007).
10.11*	Letter of Employment between the Company and James F. Petelle, dated August 23, 2006 (incorporated by reference to Exhibit 99.7 of the Company’s Current Report on Form 8-K filed on November 16, 2006).
10.12*	Relocation Proposal between the Company and James F. Petelle, dated August 23, 2006 (incorporated by reference to Exhibit 10.20.1 of the Company's Annual Report on Form 10-K for the year ended October 3, 2009 filed on November 9, 2009).
10.13*	Addendum to Relocation Proposal between the Company and James F. Petelle, dated September 18, 2009 (incorporated by reference to Exhibit 10.20.2 of the Company's Annual Report on Form 10-K for the year ended October 3, 2009 filed on November 9, 2009).
10.14*	Amended and Restated Change in Control Severance Agreement between the Company and Richard T. Wagner dated November 14, 2006 (incorporated by reference to Exhibit 99.1 of the Company’s Current Report on Form 8-K filed on February 15, 2007).
10.15*	2005 Equity Incentive Plan of Insteel Industries, Inc., as amended on November 8, 2011 (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 2011 filed on November 10, 2011).
10.16*	Summary of amendments to the Insteel Industries, Inc. Director Compensation Plan (incorporated by reference to exhibit 10.23 of the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 2008 filed on November 18, 2008).
10.17*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on January 23, 2009).
10.18*	Insteel Industries, Inc. Return on Capital Incentive Compensation Plan (as amended and restated effective August 12, 2008) (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on February 13, 2009).
10.19*	Form of Amendment to 2005 Equity Incentive Plan of Insteel Industries, Inc. dated August 20, 2013 (incorporated by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K filed on October 29, 2013).
10.20*	2015 Equity Incentive Plan of Insteel Industries, Inc. (incorporated by reference to Exhibit 99 filed with the Company’s Registration Statement on Form S-8, filed with the SEC on February 17, 2015 (File No. 333-202128)).
10.21*	Form of Restricted Stock Unit Agreement under the 2015 Equity Incentive Plan of Insteel Industries, Inc.
10.22*	Form of Stock Option Agreement under the 2015 Equity Incentive Plan of Insteel Industries, Inc.
21.1	List of Subsidiaries of Insteel Industries, Inc. at September 28, 2019.
23.1	Consent of Independent Registered Public Accounting Firm.
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.

Exhibit Number	Description
101	The following financial information from our Annual Report on Form 10-K for the fiscal year ended September 28, 2019, filed on October 25, 2019, formatted in XBRL (eXtensible Business Reporting Language) includes: (i) the Consolidated Statements of Operations for the years ended September 28, 2019, September 29, 2018 and September 30, 2017, (ii) the Consolidated Statements of Comprehensive Income for the years ended September 28, 2019, September 29, 2018 and September 30, 2017, (iii) the Consolidated Balance Sheets as of September 28, 2019 and September 29, 2018, (iv) the Consolidated Statements of Cash Flows for the years ended September 28, 2019, September 29, 2018 and September 30, 2017, (v) the Consolidated Statements of Shareholders' Equity as of September 28, 2019, September 29, 2018 and September 30, 2017 and (vi) the Notes to Consolidated Financial Statements.

* *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 Section 13 or 15(d) 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

By: /S/ MICHAEL C. GAZMARIAN

Michael C. Gazmarian

Vice President, Chief Financial Officer and Treasurer

Date: October 25, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on October 25, 2019 below by the following persons on behalf of the registrant and in the capacities indicated:

Name and Signature	Position(s)
/s/ H. O. WOLTZ III	
H. O. Woltz III	*President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)*
/s/ MICHAEL C. GAZMARIAN	
Michael C. Gazmarian	*Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)*
/s/ SCOT R. JAFROODI	
Scot R. Jafroodi	*Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)*
/s/ ABNEY S. BOXLEY III	
Abney S. Boxley III	*Director*
/s/ ANNE H. LLOYD	
Anne H. Lloyd	*Director*
/s/ W. ALLEN ROGERS II	
W. Allen Rogers II	*Director*
/s/ JON M. RUTH	
Jon M. Ruth	*Director*
/s/ JOSEPH A. RUTKOWSKI	
Joseph A. Rutkowski	*Director*
/s/ G. KENNEDY THOMPSON	
G. Kennedy Thompson	*Director*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Abney S. Boxley, III[2,3]
President, Eastern Region
Summit Materials, Inc.

Anne H. Lloyd[1,2]
Retired Executive Vice President and
Chief Financial Officer
Martin Marietta Materials, Inc.

W. Allen Rogers II[1,3]
Lead Independent Director
Principal
Ewing Capital Partners, LLC
Partner
Peter Browning Partners, LLC

Jon M. Ruth[2,3]
Retired Vice President
Cargill

Joseph A. Rutkowski[2,3]
Principal
Winyah Advisors LLC

G. Kennedy Thompson[1,2]
Retired Partner
Aquiline Capital Partners LLC

H.O. Woltz III
Chairman, President and
Chief Executive Officer
Insteel Industries, Inc.

(1) Member of the Audit Committee

(2) Member of the Executive Compensation Committee

(3) Member of the Nominating and Governance Committee

EXECUTIVE OFFICERS

H.O. Woltz III
Chairman, President and
Chief Executive Officer

Michael C. Gazmarian
Vice President, Chief Financial Officer
and Treasurer

James F. Petelle
Vice President—Administration
and Secretary

Richard T. Wagner
Vice President and General Manager—
Concrete Reinforcing Products Business
Unit, Insteel Wire Products Company

SHAREHOLDER INFORMATION

Corporate Headquarters
1373 Boggs Drive
Mount Airy, North Carolina 27030
(336) 786-2141

Independent Registered Public Accounting Firm
Grant Thornton LLP
Charlotte, North Carolina

Annual Meeting
Insteel shareholders are invited to attend our annual meeting, which will be held on Tuesday, February 11, 2020 at 9:00 a.m. ET at the Cross Creek Country Club, 1129 Greenhill Road, Mount Airy, North Carolina 27030.

Common Stock
Insteel's common stock trades on the Nasdaq Global Select Market under the symbol IIIN. As of October 23, 2019, there were 531 shareholders of record.

Shareholder Services
For change of name, address or ownership of stock; to replace lost stock certificates; or to consolidate accounts, please contact:

AST, LLC
Operations Center
6201 15th Avenue
Brooklyn, New York 11219
(800) 937-5449
www.astfinancial.com

Investor Relations
For information on Insteel, additional copies of this report or other financial information, contact Michael C. Gazmarian, Vice President, Chief Financial Officer and Treasurer, at our headquarters. You may also visit the Investors section of our web site at *http://insteelgcs.gcs-web.com*.

FORWARD-LOOKING STATEMENTS

Any statements in this 2019 Annual Report that are not entirely historical in nature constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For important information regarding forward-looking statements, please read the “Cautionary Note Regarding Forward-Looking Statements” on page 4 of Insteel's Annual Report on Form 10-K for the year ended September 28, 2019, which is included as part of this 2019 Annual Report.

1373 Boggs Drive
Mount Airy, North Carolina 27030
www.insteel.com