

INSTEEL INDUSTRIES INC

Form 10-Q

July 21, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended July 2, 2016**

**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**

(State or other jurisdiction of incorporation or organization)

**56-0674867**

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

**1373 Boggs Drive, Mount Airy, North Carolina**

(Address of principal executive offices)

**27030**

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's common stock as of July 20, 2016 was 18,903,899.

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(In thousands, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 2,</b>	<b>June 27,</b>	<b>July 2,</b>	<b>June 27,</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net sales	\$115,629	\$117,016	\$315,434	\$329,411
Cost of sales	88,082	101,322	252,849	292,972
Gross profit	27,547	15,694	62,585	36,439
Selling, general and administrative expense	6,849	6,427	20,820	18,054
Restructuring charges, net	58	345	83	678
Other expense (income), net	223	601	138	(1,038 )
Interest expense	40	65	121	273
Interest income	(53 )	(1 )	(103 )	(5 )
Earnings before income taxes	20,430	8,257	41,526	18,477
Income taxes	6,899	2,865	14,135	6,391
Net earnings	\$13,531	\$5,392	\$27,391	\$12,086
Net earnings per share:				
Basic	\$0.72	\$0.29	\$1.47	\$0.66
Diluted	0.71	0.29	1.44	0.64
Weighted average shares outstanding:				
Basic	18,867	18,438	18,690	18,407
Diluted	19,135	18,828	19,011	18,823
Cash dividends declared per share	\$0.03	\$0.03	\$1.09	\$0.09
Comprehensive income	\$13,531	\$5,392	\$27,391	\$12,086

*See accompanying notes to consolidated financial statements.*

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**INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands)

	<b>(Unaudited)</b>	
	<b>July 2,</b>	<b>October</b>
	<b>2016</b>	<b>3,</b>
		<b>2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 53,838	\$33,258
Accounts receivable, net	49,426	46,782
Inventories	63,914	66,009
Other current assets	2,208	5,309
Total current assets	169,386	151,358
Property, plant and equipment, net	85,779	84,178
Intangibles, net	9,352	10,220
Goodwill	6,965	6,965
Other assets	7,935	7,518
Total assets	\$ 279,417	\$260,239
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 39,738	\$32,182
Accrued expenses	13,376	13,644
Total current liabilities	53,114	45,826
Other liabilities	13,212	14,198
Commitments and contingencies		
Shareholders' equity:		
Common stock	18,904	18,466
Additional paid-in capital	66,303	60,967
Retained earnings	130,030	122,928
Accumulated other comprehensive loss	(2,146 )	(2,146 )
Total shareholders' equity	213,091	200,215
Total liabilities and shareholders' equity	\$ 279,417	\$260,239

*See accompanying notes to consolidated financial statements.*



**INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>July 2,</b>	<b>June 27,</b>
	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities:</b>		
Net earnings	\$27,391	\$12,086
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,529	8,704
Amortization of capitalized financing costs	48	72
Stock-based compensation expense	1,521	1,502
Deferred income taxes	597	546
Asset impairment charges	20	237
Excess tax benefits from stock-based compensation	(1,244 )	(150 )
Loss (gain) on sale and disposition of property, plant and equipment	15	(1,755 )
Increase in cash surrender value of life insurance policies over premiums paid	(268 )	(233 )
Net changes in assets and liabilities (net of assets and liabilities acquired):		
Accounts receivable, net	(2,644 )	2,833
Inventories	2,095	11,106
Accounts payable and accrued expenses	7,981	(19,409)
Other changes	1,613	786
Total adjustments	18,263	4,239
Net cash provided by operating activities	45,654	16,325
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(9,077 )	(6,767 )
Acquisition of intangible asset	-	(1,460 )
Proceeds from fire loss insurance	-	1,713
Acquisition of business	-	480
Proceeds from sale of assets held for sale	180	-
Proceeds from sale of property, plant and equipment	60	104
Proceeds from surrender of life insurance policies	134	40
Increase in cash surrender value of life insurance policies	(324 )	(284 )
Net cash used for investing activities	(9,027 )	(6,174 )
<b>Cash Flows From Financing Activities:</b>		
Proceeds from long-term debt	273	60,872
Principal payments on long-term debt	(273 )	(60,872)



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Cash dividends paid	(20,289)	(1,657 )
Cash received from exercise of stock options	4,312	200
Excess tax benefits from stock-based compensation	1,244	150
Payment of employee tax withholdings related to net share transactions	(1,303 )	(254 )
Financing costs	(11 )	(207 )
Net cash used for financing activities	(16,047)	(1,768 )
Net increase in cash and cash equivalents	20,580	8,383
Cash and cash equivalents at beginning of period	33,258	3,050
Cash and cash equivalents at end of period	\$53,838	\$11,433

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:		
Interest	\$-	\$119
Income taxes, net	12,166	4,198
Non-cash investing and financing activities:		
Purchases of property, plant and equipment in accounts payable	460	182
Restricted stock units and stock options surrendered for withholding taxes payable		