

INSTEEL INDUSTRIES INC  
Form 10-Q  
January 17, 2019

**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 December 29, 2018**

**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

Edgar Filing: INSTEEL INDUSTRIES INC - Form 10-Q

Identification  
No.)

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

**27030**

(Address of principal executive offices)

(Zip Code)

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

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer  Accelerated filer   
Smaller reporting company   
Non-accelerated filer   
Emerging growth company

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

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

Yes [ ] No [X]

The number of shares outstanding of the registrant's common stock as of January 16, 2019 was 19,223,017.

---

**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION**

Item 1.	Unaudited Financial Statements	
	Consolidated Statements of Operations and Comprehensive Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Cash Flows	5
	Consolidated Statements of Shareholders' Equity	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 4.	Controls and Procedures	21

**PART II – OTHER INFORMATION**

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

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

(In thousands, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>December 29, 2018</b>	<b>December 30, 2017</b>
Net sales	\$104,110	\$ 97,741
Cost of sales	93,134	86,080
Gross profit	10,976	11,661
Selling, general and administrative expense	6,534	5,763
Other expense (income), net	(829 )	19
Interest expense	30	28
Interest income	(155 )	(76 )
Earnings before income taxes	5,396	5,927
Income taxes	1,270	(2,184 )
Net earnings	\$4,126	\$ 8,111
Net earnings per share:		
Basic	\$0.21	\$ 0.43
Diluted	0.21	0.42
Weighted average shares outstanding:		
Basic	19,223	19,041
Diluted	19,336	19,224
Cash dividends declared per share	\$0.03	\$ 1.03
Comprehensive income	\$4,126	\$ 8,111

*See accompanying notes to consolidated financial statements.*

3

---

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

(In thousands)

	<b>(Unaudited)</b>	
	<b>December</b>	<b>September</b>
	<b>29,</b>	<b>29,</b>
	<b>2018</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,503	\$ 43,941
Accounts receivable, net	36,524	51,484
Inventories	115,306	94,157
Other current assets	5,841	5,895
Total current assets	173,174	195,477
Property, plant and equipment, net	111,171	106,148
Intangibles, net	9,429	9,703
Goodwill	8,293	8,293
Other assets	9,367	9,913
Total assets	\$ 311,434	\$ 329,534
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 40,456	\$ 60,059
Accrued expenses	7,453	11,929
Total current liabilities	47,909	71,988
Other liabilities	18,143	15,881
Commitments and contingencies		
Shareholders' equity:		
Common stock	19,223	19,223
Additional paid-in capital	73,019	72,852
Retained earnings	154,634	151,084
Accumulated other comprehensive loss	(1,494 )	(1,494 )
Total shareholders' equity	245,382	241,665
Total liabilities and shareholders' equity	\$ 311,434	\$ 329,534

*See accompanying notes to consolidated financial statements.*

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

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>December 29, 2018</b>	<b>December 30, 2017</b>
<b>Cash Flows From Operating Activities:</b>		
Net earnings	\$4,126	\$ 8,111
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation and amortization	3,242	3,176
Amortization of capitalized financing costs	16	16
Stock-based compensation expense	174	235
Deferred income taxes	2,131	(2,069 )
Loss (gain) on sale and disposition of property, plant and equipment	(709 )	17
Increase in cash surrender value of life insurance policies over premiums paid	-	(256 )
Net changes in assets and liabilities (net of assets and liabilities acquired):		
Accounts receivable, net	14,960	515
Inventories	(21,149)	10,935
Accounts payable and accrued expenses	(25,145)	(6,793 )
Other changes	(414 )	877
Total adjustments	(26,894)	6,653
Net cash provided by (used for) operating activities	(22,768)	14,764
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(6,194 )	(6,080 )
Acquisition of business	-	(3,300 )
Proceeds from surrender of life insurance policies	13	41
Decrease (increase) in cash surrender value of life insurance policies	518	(194 )
Net cash used for investing activities	(5,663 )	(9,533 )
<b>Cash Flows From Financing Activities:</b>		
Proceeds from long-term debt	90	90
Principal payments on long-term debt	(90 )	(90 )
Payment of employee tax withholdings related to net share transactions	(7 )	-
Net cash used for financing activities	(7 )	-
Net increase (decrease) in cash and cash equivalents	(28,438)	5,231
Cash and cash equivalents at beginning of period	43,941	32,105

Cash and cash equivalents at end of period	\$15,503	\$ 37,336
--	----------	-----------

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:

Income taxes, net	\$36	\$ (7 )
Non-cash investing and financing activities:		
Purchases of property, plant and equipment in accounts payable	1,090	1,005
Declaration of cash dividends to be paid	576	19,612
Restricted stock units and stock options surrendered for withholding taxes payable	7	-

*See accompanying notes to consolidated financial statements.*

## INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
<b><i>For the three months ended December 29, 2018</i></b>						
Balance at September 29, 2018	19,223	\$19,223	\$ 72,852	\$ 151,084	\$ (1,494)	) \$ 241,665
Net earnings				4,126		) 4,126
Compensation expense associated with stock-based plans			174			) 174
Restricted stock units and stock options surrendered for withholding taxes payable			(7)			) (7)
Cash dividends declared				(576)		) (576)
Balance at December 29, 2018	19,223	\$19,223	\$ 73,019	\$ 154,634	\$ (1,494)	) \$ 245,382
<b><i>For the three months ended December 30, 2017</i></b>						
Balance at September 30, 2017	19,041	\$19,041	\$ 69,817	\$ 135,851	\$ (1,333)	) \$ 223,376
Net earnings				8,111		) 8,111
Compensation expense associated with stock-based plans			235			) 235
Cash dividends declared				(19,612)		) (19,612)
Balance at December 30, 2017	19,041	\$19,041	\$ 70,052	\$ 124,350	\$ (1,333)	) \$ 212,110

See accompanying notes to consolidated financial statements.

**INSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(1) Basis of Presentation**

The accompanying unaudited interim consolidated financial statements of Insteel Industries, Inc. (“we,” “us,” “our,” “the Company” or “Insteel”) have been prepared pursuant to the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q. Certain information and note disclosures normally included in the audited financial statements prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although we believe the disclosures made are adequate to make the information not misleading. The September 29, 2018 consolidated balance sheet was derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should therefore be read in conjunction with the consolidated financial statements and notes for the fiscal year ended September 29, 2018 included in our Annual Report on Form 10-K filed with the SEC on October 26, 2018.

The accompanying unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that we consider necessary for a fair presentation of results for these interim periods. The results of operations for the three-month period ended December 29, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending September 28, 2019 or future periods.

We have evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q and concluded there are no significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the consolidated financial statements.

**(2) Recent Accounting Pronouncements**

*Current Adoptions*

In August 2016, the Financial Accounting Standards Board (“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 current 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 current quarter using the modified retrospective method. The adoption of this update did not significantly change our policies for recognizing revenue nor materially impact our consolidated financial statements (see Note 3).

#### *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. We are evaluating the impact that the adoption of this update will have 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 are evaluating the impact that the adoption of these updates will have on our consolidated financial statements.

### (3) 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. 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.

The following table disaggregates our net sales by product line:

	<b>Three Months Ended DecemberDecember</b>	
	<b>29, 2018</b>	<b>30, 2017</b>
<i>(In thousands)</i>		
Welded wire reinforcement	\$66,278	\$ 56,891
Prestressed concrete strand	37,832	40,850
Total		