INSTEEL INDUSTRIES INC
Form 10-K
October 27, 2017
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2017

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	(I.R.S. Employer
incorporation or organization)	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**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (No Par Value) (Preferred Share Purchase Rights are attached to and trade with the Common Stock)	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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

Preferred Share Purchase Rights (attached to and trade with the Common Stock)

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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 [X] 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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. [X]

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

Large accelerated filer [ ] Accelerated filer [X]

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

Emerging growth company [ ]

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of April 1, 2017 (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 $579,089,435 based upon the closing sale price as reported on the NASDAQ Global Select Market. As of October 26, 2017, there were 19,041,046 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 2018 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 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-l 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 and specifically decline 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 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.”

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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 2017, 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 in 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 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. Our net sales and long-lived assets by geographic region are discussed in Note 13 to our consolidated financial statements and incorporated herein by reference.

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. For fiscal years 2017, 2016 and 2015, PC strand sales represented 38%, 39% and 43%, respectively, of our net sales.

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. For fiscal years 2017, 2016 and 2015, WWR sales represented 62%, 61% and 57%, respectively, of our net sales.

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, delivering them primarily by truck, using common or contract carriers. The delivery method selected is dependent upon 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 2017, 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 2017, 2016 and 2015, and are not dependent upon a single customer or a few customers, the loss of which would have a material adverse effect on our business.

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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 2017 will be shipped during the first quarter of fiscal 2018.

Seasonality and Cyclicality

Demand in our markets is both seasonal and cyclical, driven by the level of construction activity, but can also be impacted by fluctuations in the inventory positions of our customers. From a seasonal standpoint, shipments typically reach their highest level of the year when weather conditions are the most conducive to construction activity. As a result, assuming normal seasonal weather patterns, shipments and profitability are usually higher in the third and fourth quarters of the fiscal year and lower in the first and second quarters. From a cyclical standpoint, construction activity and demand for our products is generally correlated with general economic conditions, although there can be significant differences between the relative strength of nonresidential and residential construction for extended periods.

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. Wire rod 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. Trade actions initiated by domestic wire rod producers can significantly impact the pricing and availability of imported wire rod, which during fiscal years 2017 and 2016 represented approximately 27% and 30%, 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. Certain segments of the PC strand market and the majority of our CPR and ESM products are certified to customers to be in compliance with the domestic content regulations.

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, Keystone Consolidated Industries, Inc. (“Keystone”), Oklahoma Steel and Wire, and Gerdau Long Products North America, 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 Nucor Corporation, Gerdau Ameristeel Corporation, Engineered Wire Products, Inc. (a subsidiary of Keystone), Davis Wire Corporation, Oklahoma Steel & Wire Co., Inc., Concrete Reinforcements Inc. and Wire Mesh Corporation. Our primary competitors for PC strand are Sumiden Wire Products Corporation, Keystone and Wire Mesh Corporation. Import competition is also a significant factor in certain segments of the PC strand market that are not subject to “Buy America” requirements.

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In response to irrationally-priced 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 30, 2017, we had 803 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 2018.

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 electronically with, or furnish them to, the SEC. The information available on our web site and the SEC's web site 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 general 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 outstanding customer balances. 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.

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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 reduction 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. Beginning in fiscal 2004, a tightening of supply in the rod market together with fluctuations in the raw material costs of rod producers resulted in increased price volatility which has continued through fiscal 2017. 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 through higher selling prices during weaker market environments, 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.

Our financial results can also be significantly impacted if raw material supplies are inadequate to satisfy our purchasing requirements. In addition, trade actions by domestic wire rod producers against offshore suppliers can have a considerable impact on the availability and cost of imported wire rod. The imposition of anti-dumping or countervailing duty margins by the DOC against exporting countries can have the effect of reducing or eliminating their activity in the domestic market, which is of increasing significance in view of the reductions in domestic wire rod production capacity that have occurred in recent years. 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.

Our PC strand business is subject to offshore import competition on an ongoing basis in that domestic production capacity is insufficient to satisfy domestic demand in most market environments. 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 irrationally-priced 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 producers that engage in unlawful trade practices.

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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. Any such equipment failures or events can subject us to material plant shutdowns, 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 could 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. Although certain provisions of the ACA were waived in January 2017, others are anticipated to become effective at various dates over the next several years and many of the regulations and guidance pertaining to the law have not been implemented. Due to the breadth and complexity of the ACA, the lack of implementing

regulations and interpretive guidance and the phased-in nature of the requirement, we cannot predict the future effect of this law 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 natural gas, electricity, fuel and consumables would adversely affect our manufacturing and distribution costs. For most of our business, we incur the fuel costs and surcharges 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 have an adverse effect on 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 operations, growth, financial condition and results of operations.

Environmental compliance and remediation could result in substantially increased 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 2017, our common stock traded as high as $42.81 and as low as $22.50. 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 30, 2017, 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, however the facility located in Houston was leased until October 2, 2017 when we exercised the $4.9 million purchase option under the lease. 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	61	President, Chief Executive Officer and Chairman of the Board
Michael C. Gazmarian	58	Vice President, Chief Financial Officer and Treasurer
James F. Petelle	67	Vice President - Administration and Secretary
Richard T. Wagner	58	Vice President and General Manager of IWP

H. O. Woltz III, 61, 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 serves on the Executive Committee of our Board of Directors and was elected Chairman of the Board in 2009.

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Michael C. Gazmarian, 58, 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, 67, 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, 58, 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 7, 2017 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 13, 2018.

PART II

Item 5. Market for Registrant’s CommonEquity, 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 25, 2017, there were 582 shareholders of record. The following table summarizes the high and low sales prices as reported on the NASDAQ Global Select Market and the cash dividends per share declared in fiscal 2017 and 2016:

	Fiscal 2017			**Fiscal 2016**		
	High	**Low**	**Cash Dividends**	**High**	**Low**	**Cash Dividends**
First Quarter	$42.81	$22.50	$ 1.28	$25.78	$16.19	$ 1.03

Second Quarter	39.20	32.22	0.03	32.05	18.72	0.03
Third Quarter	36.94	28.94	0.03	32.11	25.40	0.03
Fourth Quarter	34.00	23.20	0.03	37.22	28.33	0.03

We currently pay a quarterly cash dividend of $0.03 per share. In addition to the regular quarterly cash dividend, we paid special cash dividends of $1.25 per share in the first quarter of fiscal 2017 and $1.00 per share in the first quarter of fiscal 2016. While we intend to pay regular quarterly cash dividends for the foreseeable future, the declaration and payment of future dividends, if any, are discretionary and will be subject to determination by our Board of Directors each quarter after taking into account various factors, including general business conditions and our financial condition, operating results, cash requirements and expansion plans. See Note 7 of the consolidated financial statements for additional discussion with respect to restrictions on our ability to make dividend payments under the terms of our revolving credit facility.

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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 30, 2017. The graph and table assume that $100 was invested on September 29, 2012 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.

	Fiscal Year Ended					
	September 29, 2012	**September 28, 2013**	**September 27, 2014**	**October 3, 2015**	**October 1, 2016**	**September 30, 2017**
Insteel Industries, Inc.	$100.00	$ 140.31	$ 184.99	$142.88	$338.18	$ 252.71
Russell 2000	100.00	130.06	135.17	136.85	158.02	190.80
S&P Building Products	100.00	143.86	165.29	200.16	259.63	272.78

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.

Rights Agreement

Information regarding our Rights Agreement is discussed in Note 16 to our consolidated financial statements and incorporated herein by reference.

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Item 6. Selected Financial Data.

Financial Highlights

(In thousands, except per share amounts)

	Year Ended				
	(52 weeks)	(52 weeks)	(53 weeks)	(52 weeks)	(52 weeks)
	September 30, 2017	October 1, 2016	October 3, 2015	September 27, 2014	September 28, 2013
Net sales	$388,871	$418,547	$447,504	$ 408,978	$ 363,896
Net earnings	22,548	37,245	21,710	16,641	11,735
Net earnings per share (basic)	1.19	1.99	1.18	0.91	0.65
Net earnings per share (diluted)	1.17	1.95	1.15	0.89	0.64
Cash dividends declared	1.37	1.12	0.12	0.12	0.37
Total assets	283,073	292,892	260,239	256,795	212,649
Total debt	-	-	-	-	-
Shareholders' equity	223,376	224,566	200,215	178,883	161,056

Our August 15, 2014 acquisition of substantially all the assets associated with the PC strand business of American Spring Wire Corporation (the "ASW Acquisition") may materially affect the comparability of the information reflected in the selected financial data presented in this Item 6.

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 revenue from product sales when products are shipped and risk of loss and title has passed to the customer. Sales taxes collected from customers are excluded from revenues and recorded on a net basis.

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 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.

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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 or estimated net realizable value. Our evaluation considers such factors as the cost of inventory, 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 2017.

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.

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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 3.75% for fiscal years 2017 and 2016 and 4.25% for fiscal 2015.

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 2018 to be $806,000 for the SERPs. Cash contributions to the SERPs during fiscal 2018 are expected to be $358,000.

A 0.25% decrease in the assumed discount rate for our SERPs would have increased our projected and accumulated benefit obligations as of September 30, 2017 by approximately $284,000 and $230,000, respectively, and our expected net periodic pension cost for fiscal 2018 by approximately $31,000.

See Note 10 to our consolidated financial statements for the related accounting and disclosures surrounding our terminated pension plan, the Insteel Wire Products Company Retirement Income Plan for Hourly Employees, Wilmington, Delaware (the “Delaware Plan”).

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.

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Results of Operations

Statements of Operations – Selected Data

(Dollars in thousands)

	Year Ended September 30, 2017	Change	October 1, 2016	Change	October 3, 2015
Net sales	$388,871	(7.1%)	$418,547	(6.5%)	$447,504
Gross profit	59,781	(29.8%)	85,188	46.0%	58,333
Percentage of net sales	15.4%		20.4%		13.0%
Selling, general and administrative expense	$25,508	(2.2%)	$26,069	0.9%	$25,824
Percentage of net sales	6.6%		6.2%		5.8%
Pension plan settlement loss	$-	N/M	$2,539	N/M	$-
Restructuring charges, net	164	42.6%	115	(67.0%)	349
Other expense (income), net	53	(71.0%)	183	N/M	(1,113)
Interest expense	136	(13.9%)	158	(50.6%)	320
Interest income	(248)	49.4%	(166)	N/M	(11)
Effective income tax rate	34.0%		33.8%		34.1%
Net earnings	$22,548	(39.5%)	$37,245	71.6%	$21,710

"N/M" = not meaningful

2017 Compared with 2016

Net Sales

Net sales decreased 7.1% to $388.9 million in 2017 from $418.5 million in 2016 due to lower shipments as average selling prices were essentially unchanged. Shipments in 2017 were unfavorably impacted by adverse weather conditions during the second half of the year including the effect from hurricanes Harvey and Irma on our Texas and Florida facilities together with a reduction in new project activity and competitive pricing pressures.

Gross Profit

Gross profit decreased 29.8% to $59.8 million, or 15.4% of net sales, in 2017 from $85.2 million, or 20.4% of net sales, in 2016. The year-over-year decrease was primarily due to lower spreads between average selling prices and raw material costs ($16.8 million), the decrease in shipments ($6.4 million) and higher unit conversion costs ($3.4 million). The decrease in spreads was driven by higher raw material costs ($16.2 million) and freight expense ($0.7 million) partially offset by higher average selling prices ($0.1 million).

Selling, General and Administrative Expense

Selling, general and administrative expense (“SG&A expense”) decreased 2.2% to $25.5 million, or 6.6% of net sales, in 2017 from $26.1 million, or 6.2% of net sales, in 2016 primarily due to lower compensation expense ($762,000) together with the relative year-over-year change in the cash surrender value of life insurance policies ($332,000), which was partially offset by higher bad debt ($186,000), travel ($163,000) and employee benefit expense ($160,000). The decrease in compensation expense was largely driven by lower incentive plan expense based on our weaker results in 2017. The cash surrender value of life insurance policies increased $812,000 in 2017 compared with $480,000 in the prior year due to the changes in the value of the underlying investments. The increase in bad debt expense was due to a prior year adjustment to the allowance for doubtful accounts based on our favorable collections experience. The increase in employee benefit costs was primarily due to higher employee supplemental retirement plan expense.

Pension Plan Settlement Loss

A pension plan settlement loss of $2.5 million was incurred in 2016 related to the termination of the Delaware Plan.

Restructuring Charges, Net

Net restructuring charges of $164,000 were incurred in 2017 for equipment relocation costs related to the consolidation of our PC strand facilities. Net restructuring charges of $115,000 were incurred in 2016, which included equipment relocation costs ($186,000), facility closure costs ($89,000) and impairment charges related to the decommissioning of equipment ($20,000) partially offset by a gain on the sale of equipment previously associated with the Newnan, Georgia PC strand facility ($180,000).

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Income Taxes

Our effective income tax rate for 2017 increased slightly to 34.0% from 33.8% in 2016 due to changes in permanent book versus tax differences.

Net Earnings

Net earnings decreased to $22.5 million ($1.17 per diluted share) in 2017 from $37.2 million ($1.95 per diluted share) in 2016 primarily due to the decrease in gross profit partially offset by lower SG&A expense and the pension plan settlement loss incurred in 2016.

2016 Compared with 2015

Net Sales

Net sales decreased 6.5% to $418.5 million in 2016 from $447.5 million in 2015 as a 2.6% increase in shipments was offset by an 8.8% reduction in average selling prices. Shipments for the prior year benefited from an extra week based on our fiscal calendar. On a pro forma basis adjusting both years to reflect the same 52-week period as 2016, the year-over-year shipment increase was 4.8%. The increase in shipments was primarily due to improved market conditions and increased demand for our products relative to the prior year. The decrease in average selling prices was driven by competitive pricing pressures.

Gross Profit

Gross profit increased 46.0% to $85.2 million, or 20.4% of net sales, in 2016 from $58.3 million, or 13.0% of net sales, in 2015. The year-over-year increase was primarily due to higher spreads between average selling prices and raw material costs ($22.3 million), lower unit conversion costs ($2.3 million) and the increase in shipments ($1.6 million). The increase in spreads was driven by lower raw material costs ($62.4 million) and freight expense ($0.5 million) partially offset by lower average selling prices ($40.6 million).

Selling, General and Administrative Expense

SG&A expense increased 0.9% to $26.1 million, or 6.2% of net sales, in 2016 from $25.8 million, or 5.8% of net sales, in 2015 primarily due to higher compensation expense ($1.8 million), which was partially offset by lower employee benefit ($657,000), bad debt ($250,000) and legal expense ($114,000) together with the relative year-over-year change in the cash surrender value of life insurance policies ($441,000). The increase in compensation expense was largely driven by higher incentive plan expense due to our improved financial results in 2016. The decrease in employee benefit costs was primarily related to a reduction in high-dollar health insurance claims. The decrease in bad debt expense was due to an adjustment to the allowance for doubtful accounts based on our favorable collections experience. The cash surrender value of life insurance policies increased $480,000 in 2016 compared with $39,000 in 2015 due to the changes in the value of the underlying investments.

Pension Plan Settlement Loss

A pension plan settlement loss of $2.5 million was incurred in 2016 related to the termination of the Delaware Plan.

Restructuring Charges, Net

Net restructuring charges of $115,000 were incurred in 2016 related to the consolidation of our PC strand facilities, including equipment relocation costs ($186,000), facility closure costs ($89,000) and impairment charges related to the decommissioning of equipment ($20,000) partially offset by a gain on the sale of equipment previously associated with the Newnan, Georgia PC strand facility ($180,000). Net restructuring charges of $349,000 were incurred in 2015 related to the closure of the Newnan facility, which included facility closure costs ($547,000), impairment charges related to the decommissioning of equipment ($543,000), equipment relocation costs ($79,000) and employee separation costs ($75,000). These charges were partially offset by an $895,000 gain on the sale of the real estate and certain of the equipment associated with the Newnan facility.

Other Expense (Income)

Other expense for 2016 was $0.2 million compared with other income of $1.1 million in 2015. The other income for 2015 was primarily related to a $1.7 million net gain from insurance proceeds attributable to the replacement of property and equipment damaged in the fire at our Gallatin, Tennessee PC strand facility in 2014, partially offset by a $0.7 million charge related to the settlement of a customer dispute.

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Interest Expense

Interest expense decreased 50.6% to $158,000 in 2016 from $320,000 in 2015 primarily due to borrowings on our revolving credit facility during the prior year.

Income Taxes

Our effective income tax rate for 2016 decreased slightly to 33.8% from 34.1% in 2015 due to changes in permanent book versus tax differences.

Net Earnings

Net earnings increased to $37.2 million ($1.95 per diluted share) in 2016 from $21.7 million ($1.15 per diluted share) in 2015 primarily due to the increase in gross profit partially offset by higher SG&A expense and the pension plan settlement loss.

Liquidity and Capital Resources

Selected Financial Data

(Dollars in thousands)

	Year Ended September 30, 2017	**October 1, 2016**	**October 3, 2015**
Net cash provided by operating activities	$20,303	$54,536	$35,774
Net cash used for investing activities	(20,880)	(12,972)	(3,039)
Net cash used for financing activities	(26,191)	(15,949)	(2,527)
Cash and cash equivalents	32,105	58,873	33,258
Net working capital	117,873	126,704	105,532

Total debt	-	-	-
Percentage of total capital	-	-	-
Shareholders' equity	$223,376	$224,566	$200,215
Percentage of total capital	100 %	100 %	100 %
Total capital (total debt + shareholders' equity)	$223,376	$224,566	$200,215

Operating Activities

Operating activities provided $20.3 million of cash in 2017 primarily from net earnings adjusted for non-cash items partially offset by an increase in the net working capital components of accounts receivable, inventories, and accounts payable and accrued expenses. Net working capital used $15.5 million of cash due to an $11.9 million decrease in accounts payable and accrued expenses and a $10.7 million increase in inventories partially offset by a $7.1 million decrease in accounts receivable. The decrease in accounts payable and accrued expenses was primarily related to lower raw material purchases near the end of the period along with a decrease in accrued salaries, wages and related expenses. The increase in inventories was due to higher raw material costs and, to a lesser extent, quantities on-hand. The decrease in accounts receivable was primarily due to lower sales during the period.

Operating activities provided $54.5 million of cash in 2016 primarily from net earnings adjusted for non-cash items and a reduction in the net working capital components of accounts receivable, inventories, and accounts payable and accrued expenses. Net working capital provided $3.2 million of cash due to a $9.0 million increase in accounts payable and accrued expenses partially offset by a $5.2 million increase in inventories and a $0.6 million increase in accounts receivable. The increases in accounts payable and accrued expenses and inventories were largely related to higher raw material purchases near the end of the period. The increase in accounts receivable was primarily due to an increase in days sales outstanding partially offset by lower selling prices.

Operating activities provided $35.8 million of cash in 2015 primarily from net earnings adjusted for non-cash items and a reduction in the net working capital components of accounts receivable, inventories, and accounts payable and accrued expenses. Net working capital provided $2.3 million of cash due to a $15.9 million decrease in inventories and a $4.3 million decrease in accounts receivable partially offset by a $17.9 million decrease in accounts payable and accrued expenses. The decrease in inventories and accounts payable and accrued expenses was primarily due to lower raw material purchases and unit costs. The decrease in accounts receivable was related to lower selling prices.

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.

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Investing Activities

Investing activities used $20.9 million of cash in 2017 primarily due to $20.6 million of capital expenditures largely related to the expansion of the Houston, Texas PC strand facility and the addition of a new ESM production line at the St. Joseph, Missouri facility. Investing activities used $13.0 million of cash in 2016 primarily due to capital expenditures largely related to the expansion of the Houston facility. Investing activities used $3.0 million of cash in 2015 primarily related to $7.2 million of capital expenditures and the $1.5 million acquisition of an intangible asset from a competitor, which was partially offset by $3.5 million of proceeds from the sale of the real estate and certain of the equipment associated with the Newnan, Georgia PC Strand facility, $1.7 million of insurance proceeds related to the insurance claim for the fire at our Gallatin, Tennessee PC strand facility in 2014 and $0.5 million of post-closing adjustments associated with the ASW Acquisition. 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 $26.2 million of cash in 2017, $15.9 million in 2016 and $2.5 million in 2015. In 2017, $26.0 million of cash was used for dividend payments (including a special cash dividend of $23.7 million, or $1.25 per share, and regular cash dividends totaling $2.3 million). In 2016, $20.9 million of cash was used for dividend payments (including a special cash dividend of $18.6 million, or $1.00 per share, and regular cash dividends totaling $2.3 million), which was partially offset by $5.1 million of proceeds from the exercise of stock options. In 2015, $2.2 million of cash was used for dividend payments and $0.2 million for financing costs that were incurred in connection with the amendment of our revolving credit facility.

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 2015, we amended the Credit Facility to, among other changes, extend its maturity date from June 2, 2016 to May 13, 2020. 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 30, 2017, no borrowings were outstanding on the Credit Facility, $85.4 million of borrowing capacity was available and outstanding letters of credit totaled $1.8 million (see Note 7 to the consolidated financial statements). As of October 1, 2016, 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 required 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.

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During 2017, we were unable to fully recover the escalation in our raw material costs through price increases due to the weakening in demand and competitive pricing pressures. During the second half of 2016, our raw material costs rose over most of the period due to increasing scrap costs for wire rod producers which we were generally able to recover through price increases. During 2015 and through the first half of 2016, wire rod prices declined through most of the period due to reductions in scrap costs which favorably impacted our margins after the higher cost inventory we had purchased in earlier periods was consumed. The timing and magnitude of any future increases in the prices for wire rod 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 30, 2017 are as follows:

Payments Due by Period
(In thousands)

	Total	Less Than 1 Year	1 - 3 Years	3 – 5 Years	More Than 5 Years
Contractual obligations:					
Raw material purchase commitments[1]	$28,897	$28,897	$-	$ -	$-
Supplemental employee retirement plan obligations	20,208	358	561	783	18,506
Operating leases	1,621	984	634	3	-
Trade letters of credit	1,781	1,781	-	-	-
Commitment fee on unused portion of credit facility	855	320	535	-	-
Other unconditional purchase obligations[2]	15,498	15,498	-	-	-
Total	$68,860	$47,838	$1,730	$ 786	$18,506

[1]Non-cancelable purchase

commitments for raw materials.
[2]Contractual commitments for capital expenditures.

Outlook

As we look ahead to 2018, we expect improved conditions in our construction end-markets. Customer sentiment remains positive and we expect the infrastructure-related portion of our business will be favorably impacted by higher state and local funding in many of our markets. We also expect to benefit from modest increases in nonresidential construction together with the continued recovery of the housing market. We believe the recent compression in spreads that we have experienced will diminish as these factors begin to drive increased demand for our products.

We continue to 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 of our manufacturing, selling and administrative activities. We expect that our financial results will be favorably impacted by the realization of additional operating synergies associated with the ASW Acquisition and the related reconfiguration of our PC strand operations as we ramp up the new raw material cleaning and production lines at our Houston plant. As market conditions improve, 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.

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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 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 through higher selling prices, which would reduce our earnings and cash flows. Additionally, when raw material costs decline, our financial results may be negatively impacted if the selling prices for our products decrease to an even greater extent and if we are consuming higher cost material from inventory. Based on our 2017 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 $21.7 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 30, 2017, 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 30, 2017. During 2017, 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.

(a) Financial Statements

Consolidated Statements of Operations for the years ended September 30, 2017, October 1, 2016 and October 3, 2015	22
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Consolidated Balance Sheets as of September 30, 2017 and October 1, 2016	24
Consolidated Statements of Shareholders' Equity for the years ended September 30, 2017, October 1, 2016 and October 3, 2015	25
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(b) Supplementary Data

Selected quarterly financial data for 2017 and 2016 is as follows:

Financial Information by Quarter (Unaudited)

(In thousands, except per share and price data)