INSTEEL INDUSTRIES INC

FORM 10-Q
(Quarterly Report)

Filed 5/9/1996 For Period Ending 3/31/1996

Address	1373 BOGGS DR
	MOUNT AIRY, North Carolina 27030
Telephone	910-786-2141
CIK	0000764401
Industry	Constr. - Supplies & Fixtures
Sector	Capital Goods
Fiscal Year	09/30

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1996

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-9929

INSTEEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA	56-0674867
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1373 BOGGS DRIVE, MOUNT AIRY, NORTH CAROLINA	27030
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (910) 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 [X] No [ ]

The number of shares outstanding of the registrant's common stock as of May 6, 1996 was 8,420,087.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INSTEEL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	(UNAUDITED) MARCH 31, 1996	SEPTEMBER 30, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 408	$ 263
Accounts receivable, net	31,449	31,516
Inventories	35,750	40,566
Prepaid expenses and other	864	1,509
Total current assets	68,471	73,854
Property, plant and equipment, net	66,619	65,100
Other assets	6,562	7,181
Total assets	$141,652	$146,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,706	$ 27,471
Accrued expenses	6,283	6,897
Short-term debt	-	8,260
Current portion of long-term debt	3,398	5,196
Total current liabilities	36,387	47,824
Deferred income taxes	5,024	5,010
Long-term debt	29,786	22,089
Stockholders' equity:		
Common stock	16,840	16,787
Additional paid-in capital	38,127	38,033
Retained earnings	15,488	16,392
Total stockholders' equity	70,455	71,212
Total liabilities and stockholders' equity	$141,652	$146,135

INSTEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands except for per share data)

(Unaudited)

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	1996	1995	1996	1995
Net sales	$63,764	$66,003	$121,269	$124,622
Cost of sales	58,720	59,060	113,439	113,005
Gross profit	5,044	6,943	7,830	11,617
Selling, general and administrative expense	3,315	3,547	6,354	6,734
Operating income	1,729	3,396	1,476	4,883
Interest expense	611	558	1,219	1,104
Minority interest in loss of subsidiary	-	164	-	-
Equity in loss (income) of affiliate	(31)	91	(33)	96
Other expense (income)	134	(29)	128	(11)
Earnings before income taxes	1,015	2,612	162	3,694
Provision (benefit) for income taxes	359	(1,414)	57	(1,016)
Net earnings	$ 656	$ 4,026	$ 105	$ 4,710
Weighted average shares outstanding	8,415	8,361	8,404	8,347
Net earnings per share	$ .08	$ .48	$ .01	$ .56
Dividends paid per share	$ .06	$ .06	$ .12	$ .12

INSTEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(Unaudited)

	SIX MONTHS ENDED MARCH 31,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 105	$ 4,710
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	4,134	4,064
Equity in loss (income) of affiliate	(33)	96
Accounts receivable, net	222	969
Inventories	4,816	(7,799)
Accounts payable and accrued expenses	(1,380)	6,994
Other changes	1,027	(2,797)
Total adjustments	8,786	1,527
Net cash provided by operating activities	8,891	6,237
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,274)	(2,803)
Proceeds from (increase in) notes receivable	(250)	112
Net cash used in investing activities	(5,524)	(2,691)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in short-term debt, net	(8,260)	(2,657)
Proceeds from issuance of debt	26,374	1,941
Payments on debt	(20,475)	(2,479)
Proceeds from employee stock options	148	301
Dividends paid	(1,009)	(1,003)
Net cash used in financing activities	(3,222)	(3,897)
Net decrease (increase) in cash	145	(351)
Cash and cash equivalents at beginning of period	263	1,234
Cash and cash equivalents at end of period	$ 408	$ 883
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 1,302	$ 1,101
Income taxes	$ 131	$ 874

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In thousands, except as noted)

(1) BASIS OF PRESENTATION

The consolidated unaudited financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1995.

The unaudited consolidated financial statements included herein reflect all adjustments (consisting only of normal recurring accruals) that the Company considers necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. The results for the interim periods are not necessarily indicative of the results for the entire fiscal year.

(2) INVENTORIES

	MARCH 31, 1996	SEPTEMBER 30, 1995
Raw materials	$13,104	$24,025
Work in process	1,728	1,372
Finished goods	18,870	13,042
Supplies	2,048	2,127
Total inventories	$35,750	$40,566

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table presents selected financial data from the Consolidated Statements of Earnings as a percentage of net sales for the three months and six months ended March 31, 1996 and 1995:

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED MARCH 31,	
	1996	1995	1996	1995
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	92.1%	89.5%	93.5%	90.7%
Gross profit	7.9%	10.5%	6.5%	9.3%
Selling, general and administrative expense	5.2%	5.4%	5.3%	5.4%
Operating income	2.7%	5.1%	1.2%	3.9%
Interest expense	0.9%	0.8%	1.0%	0.9%
Minority interest in loss of subsidiary	-	0.2%	-	-
Equity in loss (income) of affiliate	-	0.1%	-	-
Other expense (income)	0.2%	-	0.1%	-
Earnings before income taxes	1.6%	4.0%	0.1%	3.0%

Net sales were $63.8 million for the second quarter and $121.3 million for the first six months of fiscal 1996, down 3% from the record volume of the comparable prior year periods. Total wire products shipments were flat for the quarter and down 1% for the six months relative to the year-ago periods. Average selling prices decreased 4% for the quarter and 2% for the six months compared with the same periods of fiscal 1995. The quarterly sales decline was primarily attributable to lower selling values in most product lines together with decreased shipments of agricultural products and nails. Sales of concrete reinforcing products improved as the result of a second consecutive record quarter for PC strand shipments. Shipments of Insteel 3-D(R) building panel were up 90% for the quarter and 55% for the six months, reducing the operating loss of Insteel Construction Systems ("ICS") by more than half.

Gross profit margins for the second quarter fell to 7.9% compared with 10.5% for the corresponding period of fiscal 1995. For the first six months, margins decreased to 6.5% from 9.3% for the comparable prior year period. Margins were negatively impacted by narrowing spreads between raw material costs and selling prices relative to the year-ago periods. During the second half of fiscal 1995, weak market conditions and depressed shipment levels resulted in excess wire rod inventories at the end of the fiscal year, September 30, 1995. As these inventories were sharply reduced during the first six months of fiscal 1996, the consumption of higher cost wire rod together with lower selling prices compressed margins relative to comparable prior year periods. The decrease in gross profit also reflected the combination of higher manufacturing costs and lower production levels compared with the same periods of fiscal 1995.

Selling, general and administrative expense ("SG & A expense") decreased 7% for the quarter, declining as a percentage of sales to 5.2% compared with 5.4% in the prior year period. For the first six months of the year, SG & A expense dropped 6%, falling to 5.3% of sales compared with 5.4% last year. The decline was primarily due to a reduction in profit-sharing expense caused by weaker operating performance.

Interest expense increased 9% for the quarter and 10% for the six months compared to the year-ago periods as a result of higher average outstanding balances on the Company's lines of credit.

The statement of earnings for the second quarter of fiscal 1995 reflected the reversal of the first quarter accrual of the former joint venture partner's share of ICS' losses. The contribution owed was negotiated as a reduction in the purchase price for their 30% interest. As a result of the purchase of the remaining interest in ICS and subsequent merger into Insteel Wire Products, minority interest was not applicable going forward.

The provision for income taxes in the second quarter of fiscal 1995 was reduced by $2.4 million to reflect the future utilization of tax benefits arising from the acquisition of the remaining interest in ICS. Excluding this adjustment, the Company's effective income tax rate for the first six months of fiscal 1996 was 35.4% compared to 36.6% in the prior year period. The decrease in the fiscal 1996 rate is primarily due to a reduction in the estimated state income tax rate.

FINANCIAL CONDITION

The following table presents selected financial data from the consolidated financial statements for the six months ended March 31, 1996 and 1995:

	SIX MONTHS ENDED MARCH 31,		
	1996	Change	1995
Net sales	$121,269	(3%)	$124,622
Accounts receivable, net	$ 31,449	(3%)	$ 32,438
Inventories	$ 35,750	(2%)	$ 36,549
Working capital	$ 32,084	22%	$ 26,233
Earnings before interest, taxes and depreciation	$ 5,515	(38%)	$ 8,862
Capital expenditures	$ 5,274	88%	$ 2,803
Long-term debt	$ 29,786	15%	$ 25,801
Total debt	$ 33,184	7%	$ 30,949
Stockholders' equity	$ 70,455	-	$ 70,469

Operating activities generated $8.9 million of cash during the first six months of fiscal 1996 compared to $6.2 million for the corresponding period of the previous year. Raw material inventories were reduced by $10.9 million, or 45%, from the September 30, 1995 fiscal year-end balance. Cash provided by the reduction in raw material inventories was partially offset by decreases in accounts payable and accrued expenses. The downturn in operating performance resulted in a decrease in earnings before interest, taxes and depreciation to $5.5 million during the first six months of fiscal 1996 compared with $8.9 million in the year-ago period.

Investing activities consumed $5.5 million during the first six months of fiscal 1996 compared to $2.7 million during the year-ago period as a result of higher capital expenditures primarily related to the new collated nail facility. Total expenditures for the collated nail and PC strand expansion projects will approximate $9.0 million.

Financing activities used $3.2 million during the first six months of fiscal 1996 compared to $3.9 million in the prior year period. In January 1996, the annual lines of credit that provided total availability of $20.0 million were replaced by a $35.0 million unsecured revolving credit facility that will expire in November 2000. As a result, the short-term debt balance outstanding was refinanced under the revolver and is now reflected as a long-term liability.

At March 31, 1996, approximately $24.5 million was available under the $35.0 million revolving credit facility. The Company currently expects to fund its capital expenditure requirements and liquidity needs from a combination of internally generated funds, the revolving credit facility and additional long-term sources of financing.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Insteel operates in a rapidly changing environment that involves a number of risks and uncertainties, some of which are beyond the Company's control. The Company has short delivery cycles and as a result does not have a large

order backlog, which makes the forecasting of revenue inherently uncertain. As delivery lead times have decreased, the Company has generated a higher percentage of sales from new order bookings in the same fiscal period.

Business conditions and growth in the general economy have an impact on the Company's operating results. Seasonality also affects the Company's operating results, particularly in the first quarter of the fiscal year, which has historically represented the lowest quarterly sales volume. Shipments typically increase in the second quarter and reach a high point in the third or fourth quarter, reflecting the buying patterns of the Company's customers.

Wire rod market conditions also have a significant impact on the Company's operating results. Hot rolled steel rod is the Company's primary raw material and constitutes the largest component of manufacturing costs. Recently announced increases in domestic wire rod capacity should increase supplier competition and favorably impact quality and availability. As order lead times begin to decrease, the Company should be able to significantly reduce raw material inventory levels in comparison to recent years when maintaining adequate supply was a primary concern.

Insteel's business strategy continues to be focused on further expansion into higher value-added products that offer superior returns relative to the Company's traditional businesses. In March 1996, the Company entered the collated nail business with the start-up of a new manufacturing facility in Andrews, South Carolina. The plant produces nails that are pneumatically driven by nail guns, a market that is related to the Company's existing bulk nail business. The Company has also extended purchase commitments to expand the capacity of its PC strand operation in Gallatin, Tennessee, with start-up anticipated in August 1996. Neither of these projects are expected to have a material impact on the Company's fiscal 1996 operating results.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its 1996 Annual Meeting of Shareholders on February 13, 1996. The only item on the agenda was the election of three directors for terms ending in 1999, as follows:

	Votes	
	For	Withheld
John E. Woltz	7,864,546	73,594
W. Allen Rogers, II	7,873,439	64,701
Joseph D. Noell, III	7,873,504	64,636

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

27.1 Financial Data Schedule (for SEC use only)

b. Reports on Form 8-K:

No reports on Form 8-K were filed by the Registrant during the quarter ended March 31, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INSTEEL INDUSTRIES, INC.
Registrant

Date: May 8, 1996	*By*	*/s/ H.O. Woltz III* *---* *H. O. Woltz III* *President and Chief Executive Officer*
Date: May 8, 1996	*By*	*/s/ Michael C. Gazmarian* *---* *Michael C. Gazmarian* *Chief Financial Officer and Treasurer*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF INSTEEL INDUSTRIES, INC. FOR THE SIX MONTH PERIOD ENDED MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY TO REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	SEP 30 1996
PERIOD START	OCT 01 1995
PERIOD END	MAR 31 1996
CASH	408
SECURITIES	0
RECEIVABLES	31,449
ALLOWANCES	0
INVENTORY	35,750
CURRENT ASSETS	68,471
PP&E	66,619
DEPRECIATION	0
TOTAL ASSETS	141,652
CURRENT LIABILITIES	36,387
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	16,840
OTHER SE	53,615
TOTAL LIABILITY AND EQUITY	141,652
SALES	121,269
TOTAL REVENUES	121,269
CGS	113,439
TOTAL COSTS	113,439
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	1,219
INCOME PRETAX	162
INCOME TAX	57
INCOME CONTINUING	105
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	105
EPS PRIMARY	.01
EPS DILUTED	.01

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