

INSTEEL INDUSTRIES INC

Form DEF 14A

January 10, 2007

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SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement

- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

- Definitive Proxy Statement

- Definitive Additional Materials

- Soliciting Material Pursuant to Section 240.14a-12

Insteel Industries, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

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(1) Amount Previously Paid: _____

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January 12, 2007

Dear Shareholder:

You are cordially invited to attend the 2007 Annual Meeting of Shareholders of Insteel Industries, Inc. to be held Tuesday, February 13, 2007 at 10:00 a.m. local time. The meeting will take place at the Cross Creek Country Club, 1129 Greenhill Road, Mount Airy, North Carolina.

The attached proxy statement and formal notice of the meeting describe the matters expected to be acted upon at the meeting. We urge you to review these materials carefully and to use this opportunity to take part in the Company's affairs by voting on the matters described in the proxy statement. At the meeting, we will also discuss our operations, 2006 financial results and our plans for the future. Our Directors and management team will be available to answer any questions you may have. We hope that you will be able to attend.

Your vote is important to us. Whether you plan to attend the meeting or not, please complete the enclosed proxy card and return it as promptly as possible. If you attend the meeting, you may elect to have your shares voted as instructed in the proxy or you may withdraw your proxy at the meeting and vote your shares in person. If you hold shares in street name and would like to vote at the meeting, you should follow the instructions provided in the proxy statement.

Thank you for your continued support and interest in Insteel Industries.

Sincerely,

Howard O. Woltz, Jr.

Chairman of the Board

H.O. Woltz III

Chief Executive Officer

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INSTEEL INDUSTRIES, INC.
1373 Boggs Drive
Mount Airy, North Carolina 27030
(336) 786-2141

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date: Tuesday, February 13, 2007

Time: 10:00 a.m., local time

Place: Cross Creek Country Club
1129 Greenhill Road
Mount Airy, North Carolina 27030

Dear Shareholder:

At our Annual Meeting, we will ask you to:

1. Elect three directors, each for three-year terms, as set forth in the accompanying Proxy Statement; and
2. Transact such other business, if any, as may properly be brought before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on December 11, 2006 are entitled to vote at the Annual Meeting.

If you do not plan to attend the meeting and vote your common stock in person, please mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope according to the instructions printed on the card.

Any proxy may be revoked at any time prior to its exercise by delivery of a later-dated proxy or by properly voting in person at the Annual Meeting.

Enclosed is a copy of our Annual Report for the year ended September 30, 2006, which reports financial and other information regarding our business.

By Order of the Board of Directors

James F. Petelle

Secretary

Mount Airy, North Carolina

January 12, 2007

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January 12, 2007

INSTEEL INDUSTRIES, INC.
1373 Boggs Drive
Mount Airy, North Carolina 27030
(336) 786-2141

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors for use at the Annual Meeting of Shareholders to be held on Tuesday, February 13, 2007 at 10:00 a.m., local time, and at any adjournments or postponements of the Annual Meeting. The meeting will take place at the Cross Creek Country Club, 1129 Greenhill Road, Mount Airy, North Carolina. This proxy statement, accompanying proxy card and the 2006 Annual Report, which includes our financial statements, are first being mailed to our shareholders on or about January 12, 2007.

This proxy statement summarizes certain information you should consider before you vote at the Annual Meeting. However, you do not need to attend the Annual Meeting to vote your shares. If you do not expect to attend or prefer to vote by proxy, you may follow the voting instructions on the enclosed proxy card. In this proxy statement, Insteel Industries, Inc. is generally referred to as we, our, Insteel Industries, Insteel or the Company.

The attached proxy card indicates the number of shares of Insteel Industries common stock that you own. In this proxy statement, outstanding Insteel Industries common stock (no par value) is sometimes referred to as the Shares.

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING
AND RELATED PROXY MATERIALS**

Why am I receiving this proxy statement and proxy card?

You are receiving a proxy statement and proxy card from us because you owned common stock of Insteel Industries at the close of business on the December 11, 2006 record date for the 2007 Annual Meeting. This proxy statement describes matters on which we would like you, as a shareholder, to vote. It also gives you information on these matters so that you can make an informed decision.

When you sign and return the proxy card, you appoint Howard O. Woltz, Jr. and H.O. Woltz III, and each of them individually, as your representatives at the meeting. Messrs. Woltz, Jr. and Woltz III will vote your Shares at the meeting as you have instructed them. This way, your Shares will be voted regardless of whether you attend the Annual Meeting. Even if you plan to attend the meeting, it is a good idea to complete, sign and return the enclosed proxy card in advance of the meeting just in case your plans change. Returning the proxy card will not affect your right to attend or vote at the Annual Meeting.

If a matter comes up for vote at the meeting that is not described in this proxy statement or listed on the proxy card, Messrs. Woltz, Jr. and Woltz III will vote your Shares, under your proxy, in their discretion.

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What is being voted on at the Annual Meeting?

At the Annual Meeting, shareholders entitled to vote will be asked to act upon the following matters as set forth in the accompanying notice of meeting:

§ the election of three directors, each for three-year terms as discussed herein; and

§ any other matters that may properly come before the meeting or any adjournments or postponement thereof.

Who is entitled to vote?

All holders of record of our Shares at the close of business on December 11, 2006 are entitled to receive notice of the Annual Meeting and to vote the Shares held by them on the record date. Each outstanding Share entitles its holder to cast one vote for each matter to be voted upon.

May I attend the meeting?

All holders of record of our Shares at the close of business on the record date, or their designated proxies, are entitled to attend the Annual Meeting.

What constitutes a quorum in order to hold and transact business at the meeting?

Consistent with state law and our bylaws, the presence, in person or by proxy, of holders of at least a majority of the total number of Shares entitled to vote is necessary to constitute a quorum for the transaction of business at the Annual Meeting. As of the record date, there were 18,215,407 Shares outstanding and entitled to vote at the Annual Meeting. Once a Share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournment thereof; unless a new record date is or must be set for the adjournment. Shares held of record by Shareholders or their nominees who do not vote by proxy or attend the Annual Meeting in person will not be considered present or represented at the Annual Meeting and will not be counted in determining the presence of a quorum. Proxies that withhold authority or reflect abstentions or broker non-votes will be counted for purposes of determining whether a quorum is present. Broker non-votes are proxies received from brokerage firms or other nominees holding Shares on behalf of their clients who have not been given specific voting instructions from their clients with respect to non-routine matters. See Will my Shares be voted if I do not sign and return my proxy card?

How do I vote?

Voting by Holders of Shares Registered in the Name of a Brokerage Firm, Bank or Other Nominee. If your Shares are held by a brokerage firm, bank or other nominee (i.e., in street name), you should receive directions from your nominee that you must follow in order to have your Shares voted. **Street name shareholders who wish to vote in person at the meeting will need to obtain a proxy form from the brokerage firm or other nominee that holds their common stock of record.**

Voting by Holders of Shares Registered Directly in the Name of the Shareholder. If you hold your Shares in your own name as a holder of record, you may vote in person at the Annual Meeting or instruct the proxy holders named in the enclosed proxy card how to vote your Shares by mailing your completed proxy card in the postage-paid envelope that we have provided to you. Please make certain that

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you mark, sign and date your proxy card prior to mailing. All valid proxies received and not revoked prior to the Annual Meeting will be voted in accordance with instructions.

What are the Board's recommendations?

If no instructions are indicated on your valid proxy, the representatives holding proxies will vote in accordance with the recommendations of the Board of Directors. The Board of Directors recommends a vote:

FOR the election of the three director nominees, each for three-year terms as set forth herein.

Will other matters be voted on at the Annual Meeting?

We are not aware of any matters to be presented at the Annual Meeting other than those described in this proxy statement. If any other matters not described in the proxy statement are properly presented at the meeting, proxies will be voted at their discretion in accordance with the best judgment of your proxy holders.

Can I revoke or change my proxy instructions?

You may revoke or change your proxy at any time before it has been exercised by:

§ notifying our Secretary at 1373 Boggs Drive, Mount Airy, North Carolina 27030 in writing before the Annual Meeting that you have revoked your proxy;

§ delivering a later dated proxy to our Secretary prior to or at the Annual Meeting; or

§ appearing in person and voting by ballot at the Annual Meeting.

Any shareholder of record as of the record date attending the Annual Meeting may vote in person whether or not a proxy has been previously given, but the presence of a shareholder at the Annual Meeting without further action will not constitute revocation of a previously given proxy.

What vote is required to approve the election of Directors?

The election of Directors will be determined by a plurality of the votes cast at the Annual meeting if a quorum is present. Shareholders do not have cumulative voting rights in connection with the election of Directors. This means that the three nominees receiving the highest number of **FOR** votes will be elected as Directors. Withheld votes and broker non-votes, if any, are not treated as votes cast, and therefore, will have no effect on the proposal to elect Directors.

Will my Shares be voted if I do not sign and/or return my proxy card?

If your Shares are held in street name and you fail to give instructions as to how you want your Shares voted (a non-vote), the brokerage firm, bank or other nominee who holds Shares on your behalf may, in certain circumstances, vote the Shares in their discretion. However, such brokerage firm, bank or other nominee is not required to vote the Shares and may choose to enter a broker non-vote.

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With respect to routine matters, such as the election of Directors, a brokerage firm or other nominee has authority (but is not required) under the rules governing self-regulatory organizations (the SRO rules), including the NASDAQ Global Market (Nasdaq), to vote its clients Shares if the clients do not provide instructions. When a brokerage firm or other nominee votes its clients Shares on routine matters without receiving voting instructions, these Shares are counted both for establishing a quorum to conduct business at the meeting and in determining the number of Shares voted FOR, WITHHELD FROM or AGAINST such routine matters.

With respect to non-routine matters, a brokerage firm or other nominee is not permitted under the SRO rules to vote its clients Shares if the clients do not provide instructions. The brokerage firm or other nominee will so note on the vote card, and this constitutes a broker non-vote. Broker non-votes will be counted for purposes of establishing a quorum to conduct business at the meeting but not for determining the number of Shares voted FOR, AGAINST or abstaining from such non-routine matters.

In summary, if you do not vote your proxy, your brokerage firm or other nominee may either:

§ vote your Shares on routine matters and cast a broker non-vote on non-routine matters; or

§ leave your Shares unvoted altogether.

We encourage you to provide instructions to your brokerage firm or other nominee by voting your proxy. This action ensures that your Shares will be voted at the meeting.

What other information should I review before voting?

Our 2006 Annual Report, including financial statements for the fiscal year ended September 30, 2006, is included in the mailing with this proxy statement. The Annual Report, however, is not part of the proxy solicitation material. A copy of our Annual Report filed with the Securities and Exchange Commission (the SEC) on Form 10-K, including the financial statements and financial statement schedules, may be obtained without charge by:

§ writing to our Secretary at: 1373 Boggs Drive, Mount Airy, North Carolina 27030;

§ accessing the EDGAR database at the SEC s website www.sec.gov;

§ accessing our website at www.investor.insteel.com; or

§ contacting the SEC by telephone at (800) SEC-0330.

The contents of our website are not and shall not be deemed to be a part of this proxy statement.

Where can I find the voting results of the meeting?

We will announce preliminary voting results at the Annual Meeting. We will publish the final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2007. A copy of this quarterly report may be obtained without charge by any of the means outlined above for obtaining a copy of the Annual Report on Form 10-K.

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What is Householding?

The SEC rules allow for householding, which is the delivery of a single proxy statement and Annual Report to an address shared by two or more of our shareholders. A single copy of the Annual Report and the proxy statement will be sent to multiple shareholders who share the same address unless we have received contrary instructions from one or more of the shareholders.

If you prefer to receive a separate copy of the proxy statement or the Annual Report, please write to Investor Relations, Insteel Industries, Inc., 1373 Boggs Drive, Mount Airy, North Carolina 27030; or telephone our Investor Relations Department at (336) 786-2141, and we will promptly send you separate copies. If you are currently receiving multiple copies of the proxy statement and Annual Report at your address and would prefer to receive only a single copy of each, you may contact us at the address or telephone number provided above.

CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Board of Directors

The Board of Directors is currently comprised of eight members. Effective October 24, 2005, the Board of Directors approved an amendment to our bylaws reducing both the minimum and maximum size of the Board of Directors from not less than nine nor more than fifteen directors to not less than seven nor more than twelve directors.

The Board of Directors oversees our business and affairs and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The Directors keep themselves informed through discussions with the Chairman, key executive officers and our principal external advisers (legal counsel, auditors, investment bankers and other consultants), by reading reports and other materials that are sent to them and by participating in Board and committee meetings.

The Board of Directors, at its meeting in November 2006, determined that the following members of the Board, which constitute a majority thereof, are independent, as that term is defined under the independence standards of Nasdaq: Louis E. Hannen, Charles B. Newsome, Gary L. Pechota, W. Allen Rogers II, William J. Shields and C. Richard Vaughn.

Directors are expected to attend all meetings of the Board of Directors and all meetings of Board committees on which they serve. The independent Directors meet in executive session with no members of management present prior to each regularly scheduled meeting (see Executive Sessions below). The Board of Directors met seven times in 2006. Each of the Directors attended at least 75% of the Board of Directors meetings and meetings held by committees of the Board of Directors of which they were members.

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Director Attendance at Annual Meetings

The Board has determined that it is in our best interest for all members of the Board of Directors to attend the Annual Meeting of Shareholders. All eight of our Directors attended the 2006 Annual Meeting of Shareholders.

Committees of the Board

The Audit Committee. The Board has an Audit Committee, which assists the Board in fulfilling its responsibilities to shareholders concerning our accounting, financial reporting and internal controls, and facilitates open communication between the Audit Committee, Board, outside auditors and management. The Audit Committee discusses the financial information developed by management, our internal controls and our audit process with management and with outside auditors. The Audit Committee is charged with the responsibility of selecting the independent auditors. The independent auditors meet with the Audit Committee (both with and without the presence of our management) to review and discuss various matters pertaining to the audit, including our financial statements, the report of the independent auditors on the results, scope and terms of their work, and their recommendations concerning the financial practices, controls, procedures and policies we employ. The Board has adopted a written charter for the Audit Committee as well as a Pre-Approval Policy regarding audit and non-audit fees.

The Audit Committee consists of Messrs. Pechota (Chairman), Hannen and Rogers. The Board, at its meeting in November 2006, determined that each of the members of the Audit Committee meets the definition of independent as specified under Nasdaq rules. At the same meeting, the Board also determined that Mr. Pechota qualified as the Audit Committee Financial Expert as defined under SEC rules. The Board of Directors has determined that each of the Audit Committee members is financially literate as such qualification is interpreted in the Board's business judgment. The functions of the Audit Committee are further described herein under Report of the Audit Committee. The Audit Committee met six times during fiscal 2006 and members of the Audit Committee consulted with the officers of the Company, the internal auditor and the independent auditors at various times throughout the year. The Charter for the Audit Committee, as revised August 11, 2003 may be found on our website at www.investor.insteel.com/documents.cfm.

The Executive Compensation Committee. The Executive Compensation Committee is responsible for (i) determining appropriate compensation levels for our executive officers; (ii) evaluating officer and Director compensation plans, policies and programs; (iii) reviewing benefit plans for officers and employees; and (iv) producing an annual report on executive compensation for inclusion in the proxy statement. The following Directors are the members of the Executive Compensation Committee: Messrs. Shields (Chairman), Newsome and Vaughn. The Board of Directors, at its meeting in November 2006, determined that each of the Executive Compensation Committee members is independent as that term is defined under Nasdaq rules. The Executive Compensation Committee's Report on Executive Compensation is included in this proxy statement. The Executive Compensation Committee also reviews, approves and administers our incentive compensation plans and equity-based compensation plans and has sole authority for awards under such plans, including their timing, valuation and amount. The Executive Compensation Committee also reviews and recommends the structure and level of outside Director Compensation to the full Board. The Compensation Committee met twice during fiscal 2006.

The Nominating and Corporate Governance Rules. Our Board does not have a standing nominating committee or related nominating committee charter. The Board believes that it is in our best interests to have all Directors discuss and evaluate potential nominees. Effective August 3, 2004, the Board adopted Nominating and Corporate Governance Rules, whereby the nomination process is

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performed by the full Board. Upon the close of discussions by the full Board with respect to possible Board of Director candidates, the independent Directors (as defined by Nasdaq rules), by majority vote, nominate qualified individuals for election to the Board of Directors. The independent Directors may further discuss candidate matters as they see fit (with or without the presence of employee-directors), but without further input from any employee-directors. In carrying out its director nomination functions, the Board's responsibilities include seeking, identifying, screening, evaluating and recommending director candidates for nomination by the Board of Directors. The Board evaluates all Director candidates, regardless of the recommending party, on an equitable basis using the same criteria. The Board evaluates any candidate's qualifications to serve as a member of the Board based on the skills and characteristics of individual Board members as well as the composition of the Board as a whole. In addition, the Board will evaluate a candidate's independence and diversity, age, skills and experience in the context of the needs of the Board. The Nominating and Corporate Governance Rules do not have a formal policy with respect to Director recommendations from shareholders or other sources, but will give such recommendations appropriate consideration. Our Board will consider qualified candidates for Director that are nominated by qualified Shareholders in accordance with our bylaws. The procedures for shareholder Director Nomination are discussed below under Shareholder Recommendations and Nominations and Shareholder Proposals For the 2008 Annual Meeting.

The Nominating and Corporate Governance Rules

In addition to the nominating requirements under the Nominating and Corporate Governance Rules, the Board of Directors shall have sole responsibility to:

- § Make recommendations regarding the size of the Board and the tenure and classifications of Directors.
- § Recommend the charters, structure, operations, composition and qualification for membership of the Committees of the Board of Directors.
- § Adopt Corporate Governance Guidelines and recommend to the Board of Directors governance issues that should be considered.
- § Review periodically our Code of Business Conduct.
- § Obtain confirmation from management that the policies included in the Code of Business Conduct are understood and implemented.
- § Evaluate periodically the adequacy of our conflict of interest policies.
- § Consider other corporate governance and related issues.
- § Consider with management public policy issues that may affect our Company.
- § Consider at least annually succession planning for the Chief Executive Officer. Any review of possible internal candidates should include: (i) readiness and potential; (ii) demonstrated skills and competencies; (iii) needed experience and training to fill gaps; and (iv) a plan for adequate exposure to the Board of Directors.
- § Review periodically our Committee structure and operations and the working relationship between each Committee.
- § Consider, discuss and recommend ways to improve the effectiveness of the Board of Directors.

In addition, the independent Directors have sole authority to retain and terminate outside advisors to assist in the performance of Board functions, with sole authority to agree to fees and other terms of engagement.

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The Board of Directors annually evaluates these rules. The Nominating and Corporate Governance Rules may be found on the Company's website at www.investor.insteel.com/documents.cfm.

Executive Sessions

Pursuant to the listing standards of Nasdaq, the independent Directors are required to meet in executive sessions not less than quarterly. Generally, those sessions are chaired by the lead independent Director. At the current time, the lead independent Director is Mr. Hannen. The independent Directors have determined that it is appropriate to rotate the role of lead independent Director. During these executive sessions, the lead independent Director has the power to lead the meeting, set the agenda and determine the information to be provided. During fiscal 2006, the Board held four executive sessions. The lead independent Director can be contacted by writing to Lead Independent Director, Insteel Industries, Inc., c/o James F. Petelle, Secretary, 1373 Boggs Drive, Mount Airy, North Carolina 27030. We screen mail addressed to the lead independent Director for security purposes and to ensure that it relates to discrete business matters that are relevant to our Company. Mail that satisfies these screening criteria will be forwarded to the lead independent Director.

Code of Business Conduct

In keeping with the Board's commitment to sound corporate governance, on August 11, 2003, the Board adopted a Code of Business Conduct (the "Code of Conduct"), which applies to our Company and all of its employees, officers and Directors. The Code of Conduct incorporates an effective reporting and enforcement mechanism. The Board has adopted this Code of Conduct as its own standard. The Code of Conduct was prepared to help employees, officers and Directors understand our standard of ethical business practices and to promote awareness of ethical issues that may be encountered in carrying out their responsibilities. The Code of Conduct is included in an employment manual, which is supplied to all of our employees and officers and in a Board of Directors' Manual for Directors, each of whom are expected to read and acknowledge in writing that they understand such policies.

Availability of Governance Rules, Code of Conduct and Audit Committee Charter

Our Nominating and Corporate Governance Rules, Code of Business Conduct, Audit Committee Charter and Audit Committee Pre-Approval Policy, are available on our website at www.investor.insteel.com/documents.cfm, and in print to any shareholder upon written request to our Secretary.

Shareholder Recommendations and Nominations

Neither the Board nor the Nominating and Corporate Governance Rules have a separate policy with respect to director candidates recommended by shareholders. The Board does not believe that a formal policy is necessary because the Board will give such shareholder recommendations appropriate consideration and because our bylaws provide a means through which shareholders can make Director nominations. Shareholders should submit any such recommendations in writing c/o Insteel Industries, Inc., 1373 Boggs Drive, Mount Airy, North Carolina 27030, Attention Secretary. In addition, in accordance with our bylaws, any shareholder entitled to vote for the election of directors at the applicable meeting of shareholders may nominate persons for election to the Board of Directors if such shareholder complies with the notice procedures set forth in the bylaws and summarized in "Shareholders Proposals for the 2008 Annual Meeting" below.

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Process for Identifying and Evaluating Director Candidates

The Nominating and Corporate Governance Rules require the full Board to evaluate all qualified Director candidates in accordance with our Director qualification standards. The full Board evaluates an appropriate candidate's qualifications to serve as a member of the Board based on the skills and characteristics of individual Board members as well as the composition of the Board as a whole. In addition, the full Board will assess issues with respect to the candidate's independence, judgment, diversity and age, understanding of the Company's industry in general and knowledge of our business, in particular, all in the context of the Board's perceived needs at that point in time. Upon completion of discussions by the full Board, the independent Directors nominate qualified individuals for election to the Board of Directors. The independent Directors may further discuss candidate matters as they see fit (with or without the presence of employee-directors), but without further input from any employee-directors.

Communications with the Board of Directors

The Board has approved a process for shareholders to send communications to the Board. Shareholders can send communications to the Board and, if applicable, to any of its committees or to specified individual Directors in writing c/o Insteel Industries, Inc., 1373 Boggs Drive, Mount Airy, North Carolina 27030, Attention Secretary.

We screen mail addressed to the Board, its Committees or any specified individual Director for security purposes and to ensure that the mail relates to discrete business matters that are relevant to our Company. Mail that satisfies these screening criteria is required to be forwarded to the appropriate Director or Directors.

ELECTION OF DIRECTORS

Introduction

Our bylaws, as last amended October 24, 2005, provide that the number of Directors, as determined from time to time by the Board, shall be not less than seven nor more than twelve. The Board has most recently fixed the number of Directors at eight, effective at the close of the 2006 Annual Meeting of Shareholders. The bylaws further provide that Directors shall be divided into three classes serving staggered three-year terms, with each class to be as nearly equal in number as possible.

The Board has nominated each of the persons named below to serve a three-year term expiring at the 2010 Annual Meeting of Shareholders or until their successors are elected and qualify. All of the nominees presently serve as our Directors. The remaining five Directors will continue in office as indicated. It is not contemplated that any of the nominees will be unable or unwilling for good cause to serve; but, if that should occur, it is the intention of the agents named in the proxy to vote for election of such other person or persons to the office of Director as the Board may recommend. If any Director resigns, dies or is otherwise unable to serve out his term, or the Board increases the number of Directors, the Board may fill the vacancy until the next Annual Meeting of Shareholders.

Vote Required

The Directors will be elected by plurality of the votes cast at the meeting at which a quorum representing a majority of all outstanding Shares is present and voting, either by proxy or in person. This means that the three nominees receiving the highest number of votes **FOR** will be elected as Directors.

Table of Contents**Recommendation**

The Board of Directors recommends a vote **FOR** the election of each of the following nominees. If you do not vote for a particular nominee on your proxy card, your vote will not count either for or against the nominee. Unless instructions are given to the contrary, it is the intention of the persons named as proxies to vote the Shares to which the proxy is related **FOR** the election of the slate of three Director nominees.

Information Regarding Nominees, Continuing Directors and Executive Officers*Nominees to serve until the 2010 Annual Meeting:*

Howard O. Woltz, Jr., 81, has been Chairman of the Board since 1958 and was employed by us and our predecessors in various capacities for more than 50 years before retiring as an executive officer in April 2005. He continues to serve, at the pleasure of the Board, as Chairman of the Board of Directors. He had been President from 1958 to 1968 and from 1974 to 1989. Mr. Woltz also served as a Vice President, General Counsel and a Director of Quality Mills, Inc., a publicly-held manufacturer of knit apparel and fabrics for more than 35 years until its acquisition in 1988 by Russell Corporation. Mr. Woltz is the father of H. O. Woltz III. **Committee Memberships:** Executive Committee.

C. Richard Vaughn, 67, a Director since 1991, has been employed since 1967 by John S. Clark Company, Inc., a general building contracting company. Mr. Vaughn has served as Chairman of the Board of North Carolina Granite Corporation since 1998. Mr. Vaughn served as Vice President of John S. Clark from 1967 to 1970 and President from 1970 to 1988 and has served as Chairman of the Board and CEO from 1988 to the present. He also is Chairman of the Board of Riverside Building Supply, Inc. **Committee Memberships:** Executive Compensation Committee and Executive Committee.

Louis E. Hannen, 68, a Director since 1995, served in various capacities with Wheat, First Securities, Inc., from 1975 until his retirement as Senior Vice President in 1993. Since his retirement in 1993, Mr. Hannen has been an investment advisor and consultant. Mr. Hannen had 30 years of experience in the securities analysis and research field, starting with the U. S. Securities and Exchange Commission in 1963. Mr. Hannen then worked for Craigie and Company from 1965 to 1970 and Legg Mason Wood Walker, Inc. from 1970 to 1975 before joining Wheat, First Securities. Mr. Hannen serves as the Company's Lead Independent Director. **Committee Memberships:** Audit Committee.

Directors With Terms Expiring at the 2008 Annual Meeting.

W. Allen Rogers II, 60, has been a Director since 1986, except for a period of time during 1997 and 1998. Mr. Rogers is a Principal of Ewing Capital Partners, LLC, an investment banking firm founded in 2003. From 2002 to 2003 he was a Senior Vice President of Intrepid Capital Corporation, an investment banking and asset management firm. From 1998 until 2002, Mr. Rogers was President of Rogers & Company, Inc., a private investment banking boutique. From 1995 through 1997, Mr. Rogers served as a Managing Director of KPMG BayMark Capital LLC, and the investment banking practice of KPMG. Mr. Rogers served as Senior Vice President-Investment Banking of Interstate/Johnson Lane Corporation from 1986 to 1995 and as a member of that firm's Board of Directors from 1990 to 1995. **Committee Memberships:** Audit Committee.

Gary L. Pechota, 57, has been a Director since 1998. Mr. Pechota served as the Chief of Staff of the National Indian Gaming Commission from 2003 to 2005. Mr. Pechota was a private investor and consultant from 2001 until August 2003. Mr. Pechota served as the CEO and Chairman of the Board of Giant Cement Holding, Inc. from its inception in 1994 until 2001. He served as CEO of Giant Cement

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Company, a subsidiary of Giant Cement Holding, Inc., from 1993 to 2001 and as CEO of Keystone Cement Company from 1992 to 2001. Prior to joining Keystone, Mr. Pechota served as President and CEO of South Dakota Cement from 1982 to 1992. **Committee Memberships:** Audit Committee.

William J. Shields, 74, has been a Director since 1998. Mr. Shields served as Chairman of the Board and CEO of Co-Steel, Inc., an international steel producer and scrap recycling company, from 1995 to 1997. Mr. Shields also served as President and CEO of Co-Steel, Inc. from 1987 until 1995. Mr. Shields has been retired since 1997.

Committee Memberships: Executive Compensation Committee.

Directors with Terms Expiring at the 2009 Annual Meeting

H. O. Woltz III, 50, 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 had been our Vice President since 1988 and previously, President of Rappahannock Wire Company, formerly a subsidiary of our Company, since 1981. 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. until its merger with Insteel Wire Products Company in 2002. Mr. Woltz is the son of Howard O. Woltz, Jr. **Committee Memberships:** Executive Committee.

Charles B. Newsome, 69, has been a Director since 1982. He is Executive Vice President and General Manager of Johnson Concrete Company and Carolina Stalite Company, with which he has been affiliated for more than 24 years.

Committee Memberships: Executive Compensation Committee.

Named Executive Officers Who Are Not Continuing Directors or Nominees:

In addition to Mr. Woltz III discussed above, the executive officers listed below were appointed by the Board of Directors to the offices indicated for a term that will expire at the next Annual Meeting of the Board of Directors or until their successors are elected and qualify. The next meeting at which officers will be appointed is scheduled for February 13, 2007, at which Messrs Woltz III, Gazmarian and Petelle are expected to be reappointed. Although our bylaws permit the Chairman of the Board to be designated an officer, Howard O. Woltz, Jr., the current Chairman of the Board has not been so designated and is not otherwise an employee.

Michael C. Gazmarian, 47, joined us as our Chief Financial Officer and was elected Treasurer in 1994. He had been with Guardian Industries Corp., a privately-held glass manufacturer, since 1986, serving in various financial capacities.

Gary D. Kniskern, 61, was elected Vice President Administration in 1994 and has served in various capacities for more than 27 years. He served as Treasurer from 1984 until 1994 and as Secretary since 1984 and, previously, internal auditor since 1979. Mr. Kniskern is retiring effective January 12, 2007.

James F. Petelle, 56, joined us in October 2006 and was elected Vice President and Assistant Secretary on November 14, 2006 and was appointed Vice President Administration and Secretary, effective January 12, 2007. Previously he was employed by Andrew Corporation, a manufacturer of telecommunications infrastructure equipment, having served as Secretary from 1990 to May 2006, and Vice President Law from 2000 to October 2006.

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COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Director Compensation

Annual Retainer Award. Each of our non-employee Directors receives an annual retainer award plus reimbursement of expenses incurred as a Director under a proposal adopted at the 1998 Annual Meeting of Shareholders. The amount of the annual retainer award for each year is determined by the Board before the start of the retainer year. The retainer year begins on the date of the Annual Meeting of Shareholders at which Directors are elected and ends on the date of the next Annual Meeting of Shareholders at which Directors are elected. The retainer award may be paid in cash or in Shares, or a combination of cash and Shares, as determined by the Board. The designated cash portion of the retainer will be paid in equal quarterly installments and the designated stock portion of the retainer will be paid at the Annual Meeting of the Board following the Annual Meeting of Shareholders at which Directors are elected.

The annual retainer award paid for 2006 to each non-employee Director was \$30,000 and \$33,000 for committee chairpersons, all of which was paid in cash. In addition, during 2006, non-employee Directors received restricted stock grants valued at \$30,000 as of the grant date under the 2005 Equity Incentive Plan (discussed below).

Equity Incentive Plan: Our 2005 Equity Incentive Plan permits the issuance of up to 1,770,000 shares in the form of nonqualified and incentive stock options, restricted stock, restricted stock units and performance awards to our key employees and non-employee Directors. Awards granted, vesting and all other terms of award grants to non-employee Directors are at the sole discretion of the Executive Compensation Committee of the Board of Directors. Awards to non-employee Directors will be made effective upon the close of business on the date of the Annual Meeting. The plan also authorizes the Board to grant options to non-employee Directors who are appointed or elected to the Board at a time other than at the Annual Meeting. These options are subject to the same general terms and conditions as options granted following the Annual Meeting. During fiscal 2006, restricted stock awards valued at \$30,000 (or 1,918 Shares each based on a closing price of \$15.64 at the close of business on the date of the 2006 Annual Meeting) were granted to each non-employee Director. The awards vest in one year and dividends on the restricted stock will be reinvested in more restricted stock which will vest at the same time as the base award. The shares issuable under the plan have been registered with the SEC. The share numbers and per-share prices set forth in this Proxy Statement have been adjusted to reflect the two-for-one stock split by the Company on June 16, 2006.

Director Stock Option Plans. The Company's 1994 Director Stock Option Plan expired in September 2004 and no further options will be granted under the plan. There are currently 149,600 options outstanding under the plan with a weighted average exercise price of \$3.18 per share.

Expense Reimbursement. We reimburse all Directors for travel and other related expenses incurred in attending shareholder, Board and committee meetings, or out-of-pocket expenses that are otherwise incidental to the performance of their duties as Directors.

Directors who are Insteel Industries Employees. We do not compensate our employees for service as a Director. We do, however, reimburse them for travel and other related expenses.

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The table below provides information regarding the compensation paid by us to the named executive officers for services of such persons in all capacities during the fiscal years ended September 30, 2006, October 1, 2005 and October 2, 2004.

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation		
		Salary (\$)	Bonus (\$)(1)	Restricted Stock Awards (\$)(2)	Securities Underlying Options (\$)(3)	All Other Compensation (\$)(3)
H.O. Woltz III President and Chief Executive Officer	2006	404,231	404,231	162,500	15,513	51,522
	2005	344,230	344,231	162,484	29,358	48,709
	2004	320,000	320,000			5,383
Michael C. Gazmarian Chief Financial Officer and Treasurer	2006	234,615	234,615	72,500	6,921	43,962
	2005	203,461	203,462	72,482	13,098	43,304
	2004	190,000	190,000			5,087
Gary D. Kniskern Vice President-Administration and Secretary	2006	143,000	143,000	45,000	4,295	62,778
	2005	139,308	139,308	44,992	8,130	67,302
	2004	135,000	135,000			4,425

(1) Bonus amounts are earned and accrued during the fiscal year indicated, but paid after the end of each fiscal year.

(2) Represents the then current market value of the common stock on the dates of grant.

(3) Includes the following amounts: (i) for fiscal years 2005 and 2006, the amount of premiums paid by the Company with respect to

insurance policies related to funding of the SERPs for the named executives. The insurance proceeds are paid directly to us and the executive will not receive any insurance proceeds or benefits under the SERP other than those discussed herein under

Supplemental Employee Retirement Plan. For each of fiscal years 2006 and 2005, the premium amounts were as follows:

Mr. Woltz III, \$41,661; Mr. Gazmarian, \$37,858; Mr. Kniskern, \$58,604; (ii) the current dollar value of the benefit to the named executive officers of the remainder of the premiums paid by the Company during the fiscal year under its Split-Dollar Life Insurance Plan. During the fiscal years 2006, 2005 and 2004

respectively, the amounts were as follows:

Mr. Woltz III, \$297, \$409 and \$383;

Mr. Gazmarian, \$239, \$360 and \$337;

Mr. Kniskern, \$599, \$1,021, and \$895; and

(iii) the amount of matching funds paid into our Retirement Savings Plan on behalf of the named executive

officers. During the fiscal years 2006, 2005 and 2004,

respectively, these amounts were as follows:

Mr. Woltz III, \$9,564, \$6,639 and \$5,000;

Mr. Gazmarian, \$5,865, \$5,086 and \$4,750;

Mr. Kniskern, \$3,575, \$3,327 and \$3,530.

Table of Contents**Options Granted During 2006**

The table below provides information regarding stock options which have been granted to our named executive officers during fiscal 2006. During 2006, one half of the annual grant was made on February 14, 2006 and one half was made on August 14, 2006.

Name	Number of Securities Underlying Options Granted	Individual Grants			Potential Realized Value at	
		Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share (\$)	Expiration Date	Assumed Annual Rates of Stock Price Appreciation for Option Term (2)(\$)	
	(1)	(%)			5%	10%
H.O. Woltz III	9,144	16.6	15.64	2/14/16	89,940	227,925
	6,369	11.6	20.26	8/14/16	81,150	205,650
Michael C. Gazmarian	4,080	7.4	15.64	2/14/16	40,131	101,699
	2,841	5.2	20.26	8/14/16	36,198	91,734
Gary D. Kniskern	2,532	4.6	15.64	2/14/16	24,905	63,113
	1,763	3.2	20.26	8/14/16	22,463	56,926

(1) Options are granted at fair market value and become exercisable in three equal annual installments beginning on the first anniversary of grant.

(2) The dollar amounts under these columns represent the potential realizable value of each grant of options assuming that

the market price
of our common
stock
appreciates in
value from the
date of grant at
the 5% and 10%
annual rates
prescribed by
the SEC and
therefore are not
intended to
forecast possible
future
appreciation, if
any, of the price
of our common
stock.

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Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides: (i) the aggregate number of options exercised and the value realized by each executive officer during the year ended September 30, 2006, and (ii) the aggregate number of options and the value of the in-the-money options in each case held by each executive officer as of September 30, 2006. We have no outstanding stock appreciation rights. In the event of a change of control, all stock options become vested.