INSTEEL INDUSTRIES INC
Form 4
February 12, 2016

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
WOLTZ H O III

(Last) (First) (Middle)

1373 BOGGS DRIVE

(Street)

MOUNT AIRY, NC 27030

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INSTEEL INDUSTRIES INC [IIIN]

3. Date of Earliest Transaction (Month/Day/Year)
02/11/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman, President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (Restricted Stock Units)	02/11/2016		A		6,263	A	$ 0	54,413	D	
Common Stock								563,377	D	
Common Stock								177,822	I	Co-trustee of trusts for the benefit of children of H. O. Woltz III

			and Edwin M Woltz
Common Stock	81,222	I	co-trustee of Woltz Foundation
Common Stock	130,452	I	Co-trustee of trusts created by estate of Howard O. Woltz Jr.

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (Right to Buy)	$ 23.95	02/11/2016		A		17,261		(1)	02/11/2026	Common Stock	17,261
Stock Option (Right to Buy)	$ 18.05							(1)	08/17/2025	Common Stock	22,971
Stock Option (Right to Buy)	$ 21.96							(1)	02/17/2025	Common Stock	19,355
Common Stock (Right to Buy)	$ 20.5							(1)	08/12/2024	Common Stock	21,216

Common Stock (Right to Buy)	$ 19.08	(1)	02/12/2024	Common Stock	21,645
Stock Option (Right to Buy)	$ 17.22	(1)	08/12/2023	Common Stock	21,583
Stock Option (Right to Buy)	$ 16.45	(1)	02/12/2023	Common Stock	20,921
Stock Option (Right to Buy)	$ 16.69	(1)	08/19/2018	Common Stock	15,957
Stock Option (Right to Buy)	$ 17.11	(1)	02/13/2017	Common Stock	14,395
Stock Option (Right to Buy)	$ 20.27	(1)	08/13/2017	Common Stock	11,878
Stock Option (Right to Buy)	$ 20.26	(1)	08/14/2016	Common Stock	6,369

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WOLTZ H O III 1373 BOGGS DRIVE MOUNT AIRY, NC 27030	X		Chairman, President and CEO	

Signatures

James F. Petelle for H. O. Woltz III	02/12/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Options vest 1/3 annually beginning one year from grant date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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PART II.

OTHER INFORMATION

ITEM 6

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Exhibits

SIGNATURE

2

PART I **FINANCIAL INFORMATION**

ITEM 1 **CONDENSED INTERIM FINANCIAL STATEMENTS**

ENCISION INC.

CONDENSED BALANCE SHEETS

		December 31, 2005 (unaudited)		March 31, 2005 (audited)
ASSETS				
Cash and cash equivalents	$	725,847	$	1,472,385
Accounts receivable, net of allowance for doubtful accounts of $50,500 and $19,000, respectively		1,006,946		866,710
Inventory, net of reserve for obsolescence of $45,000 and $65,000, respectively		1,625,892		1,210,582
Prepaid expenses		138,396		103,150
Total current assets		3,497,081		3,652,827
EQUIPMENT, at cost:				
Furniture, fixtures and equipment		969,060		860,352
Customer-site equipment		589,199		540,692
Less - accumulated depreciation		(1,209,500)		(1,085,130)
Equipment, net		348,759		315,914
PATENTS, net of accumulated amortization of $89,300 and $80,183, respectively		154,869		117,764
OTHER ASSETS		23,483		20,210
Total assets	$	4,024,192	$	4,106,715
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	491,943	$	532,657
Accrued compensation		130,927		138,042
Other accrued liabilities		628,409		462,489
Total current liabilities		1,251,279		1,133,188
SHAREHOLDERS EQUITY:				
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued or outstanding				
Common stock, no par value, 100,000,000 shares authorized, 6,398,146 (December 31, 2005) and 6,313,146 (Mar. 31, 2005) shares outstanding		18,920,885		18,824,935
Accumulated (deficit)		(16,147,972)		(15,851,408)
Total shareholders equity		2,772,913		2,973,527
Total liabilities and shareholders equity	$	4,024,192	$	4,106,715

The accompanying notes are an integral part of these condensed financial statements.

Explanation of Responses:

ENCISION INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended December 31, 2005		2004
REVENUE, NET	$	2,116,936	$	2,097,841
COST OF SALES		851,478		913,728
Gross profit		1,265,458		1,184,113
OPERATING EXPENSES:		924,958		799,552
Sales and marketing		280,927		260,367
General and administrative		218,667		267,141
Research and development		1,424,552		1,327,060
Total operating expenses		(159,094)		(142,947)
(LOSS) FROM OPERATIONS				
OTHER INCOME (EXPENSE):				
Interest income		7,910		4,177
Other (expense), net		(2,569)		(4,548)
NET (LOSS)	$	(153,753)	$	(143,318)
NET (LOSS) PER SHARE:				
Basic and diluted net (loss) per common share	$	(0.02)	$	(0.02)
Weighted average shares used in computing basic and diluted net (loss) per common share		6,391,389		6,267,474

The accompanying notes are an integral part of these condensed financial statements.

ENCISION INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Nine Months Ended December 31, 2005		2004	
REVENUE, NET	$	6,708,017	$	5,927,055
COST OF SALES		2,681,293		2,531,576
Gross profit		4,026,724		3,395,479
OPERATING EXPENSES:				
Sales and marketing		2,724,507		2,278,484
General and administrative		884,672		950,653
Research and development		722,969		657,552
Total operating expenses		4,332,148		3,886,689
(LOSS) FROM OPERATIONS		(305,424)		(491,210)
OTHER INCOME (EXPENSE):				
Interest income		21,081		8,572
Other (expense), net		(12,221)		(8,031)
NET (LOSS)	$	(296,564)	$	(490,669)
NET (LOSS) PER SHARE:				
Basic and diluted net (loss) per common share	$	(0.05)	$	(0.08)
Weighted average shares used in computing basic and diluted net (loss) per common share		6,359,797		6,082,323

The accompanying notes are an integral part of these condensed financial statements.

5

ENCISION INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended December 31, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$ (296,564)	$ (490,669)
Adjustments to reconcile net (loss) to net cash (used in) operating activities -		
Depreciation and amortization	133,487	141,213
Provision for bad debts	31,500	(20,500)
Inventory reserves	(20,000)	(15,000)
Changes in operating assets and liabilities -		
Accounts receivable	(171,736)	(62,630)
Inventory	(395,310)	(36,609)
Other assets	(38,519)	(59,932)
Accounts payable	(40,714)	38,536
Accrued compensation and other accrued liabilities	158,805	68,687
Net cash (used in) operating activities	(639,051)	(436,904)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in equipment	(157,215)	(116,407)
Patent costs	(46,222)	
Net cash (used in investing activities)	(203,437)	(116,407)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	95,950	484,047
Net cash provided by financing activities	95,950	484,047
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(746,538)	(69,264)
CASH AND CASH EQUIVALENTS, beginning of period	1,472,385	1,356,607
CASH AND CASH EQUIVALENTS, end of period	$ 725,847	$ 1,287,343

The accompanying notes are an integral part of these financial statements.

6

ENCISION INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Unaudited)

(1) ORGANIZATION AND NATURE OF BUSINESS

Encision Inc. (the Company) is a medical device company that designs, develops, manufactures and markets patented surgical instruments that provide greater safety to patients undergoing minimally-invasive surgery. The Company believes its patented AEM® surgical instrument technology is changing the marketplace for electrosurgical devices and instruments by providing a solution to a patient safety risk in laparoscopic surgery. The Company s sales to date have been made principally in the United States.

The Company achieved profitable operations in fiscal years 2004 and 2003. However, in each fiscal year prior to 2003 and in the fiscal year 2005, the Company had incurred losses and had an accumulated deficit of $16,147,972 at December 31, 2005. Operations have been financed primarily through issuance of common stock.

During fiscal years 2004 and 2003, the Company achieved annual net income for the first time in its history. The Company s strategic marketing and sales plan is designed to expand the use of the Company s products in surgically active hospitals in the United States. Management expects these efforts to result in continued revenue increases for fiscal 2006.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue from product sales is recorded when the Company ships the product and title has passed to the customer, provided that the Company has evidence of a customer arrangement and can conclude that collection is probable. The Company s shipping policy is FOB Shipping Point. The Company recognizes revenue from sales to stocking distributors when there is no right of return, other than for normal warranty claims. The Company has no ongoing obligations related to product sales, except for normal warranty.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The Company s financial instruments consist of cash and cash equivalents and short-term trade receivables and payables. The carrying values of cash and cash equivalents and short-term receivables and payables approximate their fair value due to their short maturities.

Concentration of Credit Risk

The Company has no significant off-balance sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. The Company maintains the majority of its cash balances with two financial institutions in the form of demand deposits and money market funds.

Accounts receivable are typically unsecured and are derived from transactions with and from entities in the healthcare industry primarily located in the United States. Accordingly, the Company may be exposed to credit risk generally associated with the healthcare industry. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments.

The net accounts receivable balance at December 31, 2005 of $1,006,946 included $104,265, or approximately 10% from three customers. The net accounts receivable balance at March 31, 2005 of $866,710 included $73,339, or approximately 8%, from one customer.

Warranty Accrual

The Company provides for the estimated cost of product warranties at the time revenue is recognized. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company s warranty obligation is based upon historical experience and is also affected by product failure rates and material usage incurred in correcting a product failure. Should actual product failure rates or material usage costs differ from the Company s estimates, revisions to the estimated warranty liability would be required.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market. The Company reduces inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Inventory consisted of the following:

	December 31, 2005	**March 31, 2005**
Raw materials	$ 1,163,902	$ 738,850
Finished goods	506,990	536,732
	1,670,892	1,275,582
Less - Reserve for obsolescence	(45,000)	(65,000)
	$ 1,625,892	$ 1,210,582

Property and Equipment

Property and equipment are stated at cost, with depreciation computed primarily on a double-declining basis over the estimated useful life of the asset, generally three to five years. Company-owned AEM Monitors at customer sites are depreciated on a double-declining basis for a period of 5 years. Leasehold improvements are depreciated over the shorter of the remaining lease term or the estimated useful life of the asset. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A long-lived asset is considered impaired when estimated future cash flows related to the asset, undiscounted and without interest, are insufficient to recover the carrying amount of the asset. If deemed impaired, the long-lived asset is reduced to its estimated fair value. Long-lived assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less cost to sell.

Patents

The costs of applying for patents are capitalized and amortized on a straight-line basis over the lesser of the patent s economic or legal life (17 years in the United States). Capitalized costs are expensed if patents are not granted. The Company reviews the carrying value of its patents periodically to determine whether the patents have continuing value and such reviews could result in the conclusion that the recorded amounts have been impaired.

Accrued Liabilities

The Company has accrued $197,000 related to warranty claims, $119,866 related to sales commissions and $125,202 related to rent normalization and has included these amounts in accrued liabilities in the accompanying balance sheets as of December 31, 2005.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes (SFAS No. 109). SFAS No. 109 requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. SFAS No. 109 also requires recognition of deferred tax assets for the expected future tax effects of all deductible temporary differences, loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. During fiscal year 2005, no tax benefit was obtained from the Company s loss. As a result, no tax benefit is reflected in the accompanying statements of operations. During the first nine months of fiscal year 2006, no tax benefit was obtained from the Company s loss. As a result, no tax benefit is reflected in the accompanying statements of operations. Should the Company achieve sufficient, sustained income in the future, the Company may conclude that some or all of the valuation allowance should be reversed.

Research and Development Expenses

The Company expenses research and development costs for products and processes as incurred.

Stock-Based Compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations in accounting for stock options granted to employees. If the Company had accounted for its stock-based compensation plans in accordance with SFAS 123, the Company s net income or loss and pro forma net income or loss per basic and diluted common share for the three months ended December 31, 2005 would have been reported as follows:

Three months ended December 31, 2005		
Net (Loss)		
As Reported	$	(153,753)
Stock-based compensation based upon estimated fair values		(53,672)
Pro forma	$	(207,425)
Pro Forma Net (Loss) Per Basic and Diluted Common Share		
As Reported	$	(0.02)
Pro Forma	$	(0.03)

Three m