

CHARTER OF THE AUDIT COMMITTEE INSTEEL INDUSTRIES, INC.

Purpose

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Insteel Industries, Inc. (the “Company”) to assist the Board in its oversight of the integrity of the financial statements and the accounting and financial reporting processes of the Company, the independence and qualifications of the public accounting firm engaged to prepare or issue an audit report with respect to the Company’s financial statements (the “Independent Auditor”) and the performance of the Company’s Independent Auditor and internal audit function.

The Company’s management is responsible for preparing the Company’s financial statements and the Independent Auditor is responsible for auditing those financial statements. The Committee does not plan or conduct audits or determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. In carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the Independent Auditor’s work. The Committee is empowered, at Company expense, to retain independent auditors, independent counsel and other advisors as necessary to assist the Committee in fulfilling its responsibilities.

Membership and Structure

The Committee shall consist of a minimum of three members of the Board all of whom shall satisfy the independence and financial literacy requirements of the Nasdaq Stock Market, Inc. (“Nasdaq”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). At least one Committee member must be financially sophisticated under Nasdaq listing standards and qualify as an “audit committee financial expert” under SEC rules, as determined by the Board. The members of the Committee and its chairperson (the “Chair”) are appointed by the Board upon the recommendation of the Nominating and Governance Committee and shall serve for such term or terms as the Board shall determine.

Meetings

The Committee shall meet at least twice per year with the Independent Auditor to discuss the annual audit plan and results. In addition, the Committee shall meet after the end of each quarter and before the issuance of the Company’s earnings release and filing of its Form 10-Q or 10-K to discuss the Independent Auditor’s review of the financial information contained in these reports. Meetings will be conducted at such times and places as the Committee shall determine, including by written consent. In view of the demands and responsibilities of the Committee, members of the Committee should not serve on more than two additional audit committees of other public companies and the Chair of the Committee should not serve on more than two other audit committees of a public company.

Duties and Responsibilities

In carrying out its oversight responsibilities, the Committee:

- (1) is directly responsible for the appointment, replacement, compensation, retention and oversight of the work of the Independent Auditor. The Independent Auditor shall report directly to the Committee.
- (2) reviews with the Company's management, Independent Auditor and internal audit function the Company's policies and procedures to reasonably ensure the adequacy of internal accounting and financial reporting controls; the integrity of the Company's financial reporting processes and controls; and significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures.
- (3) is familiar with the accounting and reporting principles applied by the Company in preparing its financial statements. The Committee reviews and discusses with management and the Independent Auditor the accounting policies which may be viewed as critical and any significant changes in the accounting policies of the Company which may have a significant impact on the Company's financial reports.
- (4) reviews with the Independent Auditor, prior to the audit, the scope, planning and staffing of the audit, including the Independent Auditor's engagement letter, and approves the fees to be paid to the Independent Auditor.
- (5) reviews and preapproves the audit and non-audit services to be provided by the Independent Auditor and ensures that any non-audit services do not impair the Independent Auditor's independence. The authority to grant preapprovals may be delegated to one or more designated members of the Committee, whose decisions will be presented to the full Committee at its next scheduled meeting.
- (6) reviews the Company's annual audited financial statements and Form 10-K with management and the Independent Auditor prior to the filing of the Company's Form 10-K with the SEC, with emphasis on (i) major issues regarding accounting and auditing principles and practices, including any changes in such principles during the year, (ii) significant financial reporting issues and judgments that arose or were made in connection with the preparation of the audited financial statements, including any adjustments proposed by the Independent Auditor, and (iii) significant transactions not a normal part of the Company's operations.
- (7) reviews with the Independent Auditor the matters required to be discussed by Statement on Auditing Standards No. 114 relating to the conduct of the audit, including any problems or difficulties encountered in the course of the audit work and management's response; any restrictions on the scope of activities or access to required information; any significant disagreements with management; and any

management letter provided by the Independent Auditor and the Company's response to that letter.

- (8) evaluates the cooperation received by the Independent Auditor during their audit examination and inquires whether there have been any disagreements with management which, if not satisfactorily resolved, would have caused them to issue a nonstandard report on the Company's financial statements. Also, elicits the comments of management regarding the responsiveness of the Independent Auditor to the Company's future needs.
- (9) discusses with the Independent Auditor the quality of the Company's financial and accounting personnel and reviews feedback with the Chief Financial Officer prior to reporting to the Board.
- (10) inquires whether management's choices of accounting principles are conservative, moderate or aggressive and whether those principles are common or unusual practices.
- (11) reviews the financial statements and related financial information with management and the Independent Auditor to determine that management and the Independent Auditor are satisfied with the disclosures and content prior to releasing any financial statements or comparable information to the public (including any earnings releases) or submitting financial statements or related financial information to the SEC, including financial statements and financial information such as Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Forms 10-Q and 10-K. The Chair of the Committee may represent the entire Committee where time does not permit the review of interim financial information by the full Committee.
- (12) evaluates the independence of the Independent Auditor by periodically obtaining a formal written statement from the Independent Auditor concerning all relationships between the Independent Auditor and the Company or any other relationships that may adversely affect the independence of the Independent Auditor and recommends appropriate Board action in response to the Independent Auditor's written statement to satisfy the Committee as to the Independent Auditor's independence.
- (13) obtains and reviews at least annually a report by the Independent Auditor describing the firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, peer review, Public Company Accounting Oversight Board inspection, or by any inquiry or investigation by governmental or professional authorities within the past five years regarding one or more independent audits carried out by the firm and any steps taken to deal with any such issues.

- (14) reviews and discusses with management and the Independent Auditor the timing and process for implementing the rotation of the lead audit partner and the reviewing partner, which rotation must occur not less than every five years.
- (15) reviews and discusses with management and the Independent Auditor any material non-financial arrangements of the Company that do not appear on the financial statements of the Company, and any transaction or series of transactions dealing with related parties that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties. With respect to related-party transactions that involve a member of the Board, discusses with the Board, at least annually, whether the transaction or transactions affect the independence of the Director.
- (16) prepares a report to shareholders as required by the SEC for inclusion in the Company's annual proxy statement.
- (17) reviews with the internal audit function the annual internal audit plan and significant reports to management prepared by the internal audit function and management's responses.
- (18) maintains minutes of meetings and periodically reports to the Board on significant results of Committee activities.
- (19) establishes procedures to receive and follow up on complaints regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Periodically communicates to all employees the existence and anonymity of such communication channel and procedures established.
- (20) reviews the Audit Committee Charter on an annual basis and recommends to the Board any modifications to the Charter that the Committee deems appropriate for the approval of the Board.