

VAUGHN RICHARD C
Form 4
August 31, 2006

FORM 4

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

OMB APPROVAL

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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

(Print or Type Responses)

1. Name and Address of Reporting Person *
VAUGHN RICHARD C

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
1373 BOGGS DRIVE
(Street)

3. Date of Earliest Transaction
(Month/Day/Year)
08/30/2006

Director 10% Owner
 Officer (give title below) Other (specify below)

MOUNT AIRY, NC 27030

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

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

(City) (State) (Zip)

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 Ownership (Instr. 4)
			Code	V	Amount (A) or Price (D)		
Common Stock	08/30/2006		M		4,000 A \$ 4.56	D	
Common Stock	08/30/2006		M		4,000 A \$ 4.19	D	
Common Stock	08/30/2006		M		4,000 A \$ 3.28	D	
Common Stock	08/30/2006		M		4,000 A \$ 3.19	D	
Common Stock	08/30/2006		M		7,200 A \$ 5.43	D	
					1,922	I	Restricted

Common
Stock

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

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(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 Security (Instr. 3 and 4)		
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Non-Qualified Stock Option (right to buy)	\$ 3.19	08/30/2006		M	4,000	02/03/1998 ⁽¹⁾ 02/03/2008	Common Stock	4	
Non-Qualified Stock Option (right to buy)	\$ 3.28	08/30/2006		M	4,000	02/09/1999 ⁽¹⁾ 02/09/2009	Common Stock	4	
Non-Qualified Stock Option (right to buy)	\$ 4.19	08/30/2006		M	4,000	02/01/2000 02/01/2010	Common Stock	4	
Non-Qualified Stock Option (right to buy)	\$ 4.56	08/30/2006		M	4,000	02/04/1997 02/04/2007	Common Stock	4	
Non-Qualified Stock Option (right to buy)	\$ 5.43	08/30/2006		M	7,200	07/20/2004 07/20/2014	Common Stock	7	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
VAUGHN RICHARD C 1373 BOGGS DRIVE	X			

MOUNT AIRY, NC 27030

Signatures

By: Gary D. Kniskern For: C. Richard
Vaughn

08/31/2006

__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 are immediately exercisable upon grant.
 - (2) Exercise of non qualified stock option

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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