ASTEC INDUSTRIES INC
Form 10-Q
August 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008
OR
o 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 001-11595

Astec Industries, Inc.
(Exact name of registrant as specified in its charter)

Tennessee	62-0873631
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1725 Shepherd Road, Chattanooga, Tennessee	37421
(Address of principal executive offices)	(Zip Code)

(423) 899-5898
(Registrant's telephone number, including area code)

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 ýNO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ý	Accelerated Filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

YES o	NO ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 19, 2008
Common Stock, par value $0.20	22,369,114

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

Astec Industries, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,491	$ 34,636
Trade receivables, net	106,093	84,198
Other receivables	1,760	3,289
Inventories	234,175	210,819
Prepaid expenses and other	6,089	6,926
Deferred income tax assets	10,836	8,864
Total current assets	398,444	348,732
Property and equipment, net	147,039	141,528
Investments	18,747	18,529
Goodwill	26,176	26,416
Other	6,993	7,365
Total assets	$ 597,399	$ 542,570
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 63,470	$ 54,840
Accrued product warranty	9,757	7,827
Customer deposits	40,034	37,751
Accrued payroll and related liabilities	10,084	12,556
Accrued loss reserves	2,627	2,859
Income taxes payable	5,266	2,703
Other accrued liabilities	26,773	25,357
Total current liabilities	158,011	143,893
Deferred income tax liabilities	9,545	8,361
Other	13,075	12,843
Minority interest	825	884
Total shareholders' equity	415,943	376,589
Total liabilities and shareholders' equity	$ 597,399	$ 542,570

See Notes to Unaudited Condensed Consolidated Financial Statements

Astec Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(in thousands, except share and per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	$ 277,703	$ 226,414	$ 540,775	$ 441,976
Cost of sales	211,414	167,471	408,266	328,660
Gross profit	66,289	58,943	132,509	113,316
Selling, general, administrative and engineering expenses	33,589	30,318	72,369	60,848
Income from operations	32,700	28,625	60,140	52,468
Interest expense	120	201	252	616
Other income, net of expense	412	714	839	1,400
Income before income taxes and minority interest	32,992	29,138	60,727	53,252
Income taxes	11,921	10,584	22,080	19,330
Income before minority interest	21,071	18,554	38,647	33,922
Minority interest in earnings (loss) of subsidiary	(1)	49	56	83
Net income	$ 21,072	$ 18,505	$ 38,591	$ 33,839
Earnings per common share				
Net income:				
Basic	$ 0.95	$ 0.85	$ 1.73	$ 1.55
Diluted	$ 0.93	$ 0.83	$ 1.71	$ 1.52
Weighted average common shares outstanding:				
Basic	22,283,071	21,879,134	22,260,085	21,762,265
Diluted	22,633,760	22,400,284	22,592,148	22,298,140

See Notes to Unaudited Condensed Consolidated Financial Statements

Astec Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 38,591	$ 33,839
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,465	7,246
Provision (recoveries) for doubtful accounts, net	(13)	295
Provision for inventory reserve	1,823	1,182
Provision for warranty reserve	9,577	6,369
Deferred compensation provision (benefit)	(456)	769
Purchase of trading securities, net	(1,853)	(806)
Stock-based compensation	1,428	910
Tax benefit from stock option exercise	(416)	(2,732)
Deferred income tax benefit	(557)	(1,802)
(Gain) Loss on sale and disposition of fixed assets	(56)	21
Minority interest in earnings of subsidiary	56	83
(Increase) decrease in:		
Trade and other receivables	(20,353)	(15,605)
Inventories	(25,180)	(10,009)
Prepaid expenses and other	1,611	569
Other assets	226	1,134
Increase (decrease) in:		
Accounts payable	8,629	5,118
Accrued product warranty	(7,647)	(5,416)
Customer deposits	2,283	4,695
Income taxes payable	2,978	6,352
Other accrued liabilities	(505)	2,069
Net cash provided by operating activities	18,631	34,281
Cash flows from investing activities:		
Expenditures for property and equipment	(14,263)	(14,532)
Proceeds from sale of property and equipment	120	164
Purchase of investment securities	-	(6,491)
Net cash used by investing activities	(14,143)	(20,859)
Cash flows from financing activities:		
Tax benefit from stock option exercise	416	2,732
Supplemental executive retirement plan (SERP) transactions, net	(158)	663
Proceeds from issuance of common stock	1,261	9,817
Net cash provided by financing activities	1,519	13,212
Effect of exchange rate changes on cash	(1,152)	654
Net increase in cash and cash equivalents	4,855	27,288
Cash and cash equivalents at beginning of period	34,636	44,878
Cash and cash equivalents at end of period	$ 39,491	$ 72,166

See Notes to Unaudited Condensed Consolidated Financial Statements

Astec Industries, Inc. and Subsidiaries
Condensed Consolidated Statement of Shareholders' Equity
For the Six Months Ended June 30, 2008
(in thousands, except shares)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income	Company Shares Held by SERP	Retained Earnings	Total Shareholders' Equity
Balance December 31, 2007	22,299,125	$ 4,460	$ 114,256	$ 5,186	$ (1,705)	$ 254,392	$ 376,589
Net income						38,591	38,591
Other comprehensive income:							
Foreign currency translation adjustment				(1,819)			(1,819)
Unrealized loss on available-for-sale investment securities, net of tax				(424)			(424)
Change in unrecognized pension and post retirement benefit costs, net of tax				59			59
Comprehensive income							36,407
Stock incentive plan expense			1,344				1,344
Exercise of stock options and stock to directors, including tax benefits	69,137	14	1,747				1,761
SERP transactions, net			20		(178)		(158)
Balance, June 30, 2008	22,368,262	$ 4,474	$ 117,367	$ 3,002	$ (1,883)	$ 292,983	$ 415,943

See Notes to Unaudited Condensed Consolidated Financial Statements

ASTEC INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Act of 1933. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Astec Industries, Inc. and subsidiaries Annual Report on Form 10-K for the year ended December 31, 2007.

The condensed consolidated balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Recent Accounting Pronouncements
In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" (SFAS No. 157), which provides guidance on how to measure assets and liabilities that use fair value. SFAS No. 157 applies whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also requires additional disclosures in both annual and quarterly reports. Portions of SFAS No. 157 were effective for financial statements issued for fiscal years beginning after November 15, 2007, and the Company began applying those provisions effective January 1, 2008. The adoption of this statement did not have a significant impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." The objective of this statement is to require enhanced disclosures about an entity's derivative and hedging activities and to improve the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company will adopt the standard as of January 1, 2009. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's financial position or results of operations.

In May 2008, FASB issued SFAS No. 162, "Hierarchy of Generally Accepted Accounting Principles". This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendment to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 162 on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. SFAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP SFAS 142-3"). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R (revised 2007), "Business Combinations" and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The Company is currently evaluating the potential impact, if any, of FSP SFAS 142-3 on its consolidated financial statements.

Note 2. Earnings per Share

Basic and diluted earnings per share are calculated in accordance with SFAS No. 128 and SFAS No. 123(R). Basic earnings per share exclude any dilutive effects of stock options and restricted stock units.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net income	$ 21,072,000	$ 18,505,000	$ 38,591,000	$ 33,839,000
Denominator:				
Denominator for basic earnings per share	22,283,071	21,879,134	22,260,085	21,762,265
Effect of dilutive securities:				
Employee stock option & incentive plans	260,600	420,188	244,156	431,431
Supplemental Executive Retirement Plan	90,089	100,962	87,907	104,444
Denominator for diluted earnings per share	22,633,760	22,400,284	22,592,148	22,298,140
Net income per share:				
Basic	$ 0.95	$ 0.85	$ 1.73	$ 1.55
Diluted	$ 0.93	$ 0.83	$ 1.71	$ 1.52

A total of 323 options were antidilutive for the three months ended June 30, 2008 and no options were antidilutive for the three months ended June 30, 2007. A total of 1,082 and 162 options were antidilutive for the six months ended June 30, 2008 and 2007, respectively. Antidilutive options are not included in the diluted earnings per share computation.

Note 3. Receivables

Receivables are net of allowance for doubtful accounts of $1,596,000 and $1,713,000 as of June 30, 2008 and December 31, 2007, respectively.

Note 4. Inventories

Inventories are stated at the lower of first-in, first-out cost or market and consist of the following:

	(in thousands)	
	June 30, 2008	December 31, 2007

Raw materials and parts	$ 113,354	$ 96,719
Work-in-process	53,597	54,128
Finished goods	56,529	51,027
Used equipment	10,695	8,945
Total	$ 234,175	$ 210,819

The above inventory amounts are net of reserves totaling $11,921,000 and $11,548,000 as of June 30, 2008 and December 31, 2007, respectively.

Note 5. Property and Equipment
Property and equipment is stated at cost, less accumulated depreciation of $129,071,000 and $122,689,000 as of June 30, 2008 and December 31, 2007, respectively.

Note 6. Fair Value of Investments
The Company’s investments consist of the following (amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
June 30, 2008:				
Available-for-sale equity securities	$ 10,305	$ --	$ 2,171	$ 8,134
Trading equity securities	2,670	91	142	2,619
Trading debt securities	8,982	26	91	8,917
	$ 21,957	$ 117	$ 2,404	$ 19,670
December 31, 2007:				
Available-for-sale equity securities	$ 10,305	$ --	$ 1,483	$ 8,822
Trading equity securities	3,011	103	167	2,947
Trading debt securities	6,861	49	1	6,909
	$ 20,177	$ 152	$ 1,651	$ 18,678

Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the financial condition and near term prospects of the issuer and the Company’s intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. Management determined that the gross unrealized loss on available-for-sale equity securities is considered temporary and, therefore, it has been recorded in other comprehensive income in the periods in which it arose.

Available-for-sale equity securities are comprised of actively traded marketable equity securities with quoted prices on national markets.

Trading equity securities are mainly mutual funds purchased by the Company's SERP, an unqualified defined contribution plan, to fund a portion of the Company’s liability under the plan.

Trading debt securities are comprised mainly of marketable debt securities held by Astec Insurance Company. At June 30, 2008 and December 31, 2007, respectively, $923,000 and $149,000 of trading debt securities were due to mature within twelve months and, accordingly, are included in prepaid expenses and other current assets.

SFAS No. 157 requires that investments be categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS No. 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these investments, are as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The table below categorizes the Company's investments based upon the lowest level of significant input to the valuation (in thousands).

	Investments at June 30, 2008			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities	$ 8,134	$ -	$ -	$ 8,134
Trading equity securities	2,619	-	-	2,619
Trading debt securities	-	8,917	-	8,917
Total	$ 10,753	$ 8,917	$ -	$ 19,670

Note 7. Goodwill

At June 30, 2008 and December 31, 2007, the Company had goodwill in the amount of $26,176,000 and $26,416,000, respectively.

The changes in the carrying amount of goodwill by operating segment for the period ended June 30, 2008 are as follows:

	(in thousands)					
	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	Other	Total
Balance December 31, 2007	$ 1,157	$ 17,799	$ 1,646	$ -	$ 5,814	$ 26,416
Foreign currency translation	-	(323)	-	-	-	(323)
Balance March 31, 2008	1,157	17,476	1,646	-	5,814	26,093
Foreign currency translation	-	90	-	-	-	90
Purchase price adjustment	-	-	-	-	(7)	(7)
Balance June 30, 2008	$ 1,157	$ 17,566	$ 1,646	$ -	$ 5,807	$ 26,176

Note 8. Debt

During April 2007, the Company entered into an unsecured credit agreement with Wachovia Bank, National Association (Wachovia) whereby Wachovia has extended to the Company an unsecured line of credit of up to $100,000,000 including a sub-limit for letters of credit of up to $15,000,000. The Wachovia credit agreement replaced the previous $87,500,000 secured credit facility the Company had in place with General Electric Capital Corporation and General Electric Capital-Canada.

The Wachovia credit facility is unsecured and has an original term of three years (which is subject to further extensions as provided therein). The interest rate for borrowings is a function of the Adjusted LIBOR Rate or Adjusted LIBOR Market Index Rate, as elected by the Company, plus a margin based upon a leverage ratio pricing grid ranging between 0.5% and 1.5%. As of June 30, 2008, if any loans would have been outstanding, the applicable margin based upon the leverage ratio pricing grid would equal 0.5%. The Wachovia credit facility requires no principal amortization and interest only payments are due, in the case of loans bearing interest at the Adjusted LIBOR Market Index Rate, monthly in arrears and, in the case of loans bearing at the Adjusted LIBOR Rate, at the end of the applicable interest period therefore. The Wachovia credit agreement contains certain financial covenants related to minimum fixed charge coverage ratios, minimum tangible net worth and maximum allowed capital expenditures. At

June 30, 2008, the Company had borrowing availability of $93,352,000, net of letters of credits of $6,648,000, on its revolver. No amounts were outstanding under the credit facility at June 30, 2008.

The Company was in compliance with the financial covenants under its credit facility as of June 30, 2008.

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd., (Osborn) has available a credit facility of approximately $6,741,000 (ZAR 50,000,000) to finance short-term working capital needs, as well as to cover the short-term establishment of letter of credit performance guarantees. As of June 30, 2008, Osborn had no outstanding borrowings under the credit facility, but approximately $1,496,000 in performance and retention bonds were guaranteed under the facility. The facility is secured by Osborn's buildings and improvements, accounts receivable and cash balances and a $2,000,000 letter of credit issued by the parent Company. The portion of the available facility not secured by the $2,000,000 letter of credit fluctuates monthly based upon seventy-five percent (75%) of Osborn's accounts receivable plus total cash balances at the end of the prior month. As of June 30, 2008, Osborn had available credit under the facility of approximately $5,245,000.

Note 9. Product Warranty Reserves

Changes in the Company's product warranty liability for the three and six month periods ended June 30, 2008 and 2007 are as follows:

	(in thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Reserve balance at the beginning of the period	$ 8,861	$ 7,912	$ 7,827	$ 7,184
Warranty liabilities accrued during the period	5,131	3,090	9,577	6,369
Warranty liabilities settled during the period	(4,235)	(2,865)	(7,647)	(5,416)
Reserve balance at the end of the period	$ 9,757	$ 8,137	$ 9,757	$ 8,137

The Company warrants its products against manufacturing defects and performance to specified standards. The warranty period and performance standards vary by market and uses of its products. The Company estimates the costs that may be incurred under its warranties and records a liability at the time product sales are recorded. The product warranty liability is primarily based on historical claim rates, nature of claims and the associated cost.

Note 10. Accrued Loss Reserves

The Company accrues reserves for losses related to workers' compensation and general liability claims that have been incurred but not yet paid or are estimated to have been incurred but not yet reported to the Company. The reserves are estimated based on the Company's evaluation of the type and severity of individual claims and historical information, primarily its own claims experience, along with assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change in the future.

Note 11. Pension and Post-retirement Benefits

The Company expects to contribute approximately $740,000 to its pension plan and $385,000 to its post-retirement benefit plan during 2008. Approximately $325,000 of the contribution was paid to the pension plan and approximately $238,000 was paid for post-retirement benefits during the six months ended June 30, 2008.

The components of net periodic pension cost and post-retirement benefit cost for the six months ended June 30, 2008 and 2007 are as follows:

				(in thousands)
	Pension Benefits		Post-Retirement Benefits	
	2008	2007	2008	2007
Service cost	$ -	$ -	$ 24	$ 29

Interest cost		303		280		27		24
Expected return on assets		(366)		(320)		-		-
Amortization of prior service cost		-		-		24		14
Amortization of net (gain) loss		15		40		56		(38)
Net periodic benefit cost	$	48	$	-	$	131	$	29

Note 12. Uncertainty in Income Taxes
The Company's liability recorded for uncertain tax positions as of June 30, 2008 has not changed significantly in amount or composition since December 31, 2007.

Note 13. Segment Information
The Company has four reportable operating segments, which include the Asphalt Group, the Aggregate and Mining Group, the Mobile Asphalt Paving Group and the Underground Group. The business units in the Asphalt Group design, manufacture and market a complete line of asphalt plants and related components, heating and heat transfer processing equipment and storage tanks for the asphalt paving and other non-related industries. The business units in the Aggregate and Mining Group design, manufacture and market equipment for the aggregate, metallic mining and recycling industries. The business units in the Mobile Asphalt Paving Group design, manufacture and market asphalt pavers, material transfer vehicles, milling machines and screeds. The business units in the Underground Group design, manufacture and market a complete line of trenching equipment and directional drills for the underground construction market. Business units that do not meet the requirements for separate disclosure as operating segments are shown in the "All Others" category, including Peterson Pacific Corp. (Peterson), Astec Insurance Company and the parent company, Astec Industries, Inc. Peterson designs, manufactures and markets whole-tree pulpwood chippers, horizontal grinders and blower trucks. Astec Insurance Company is a captive insurance provider.

(in thousands)
Three Months Ended
June 30, 2008

Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group