



2003 ANNUAL REPORT

FINANCIAL OVERVIEW

(In thousands, except as noted*)

Astec Industries Inc.



	2003	2002	2001	2000	1999
Operating Results					
Net sales	\$426,613	\$480,590	\$455,839	\$520,688	\$449,627
Net income (loss)	(28,964)	(4,706)	1,992	26,281	31,712
Financial Position					
Working capital	\$81,001	\$173,224	\$161,867	\$153,389	\$127,569
Long-term debt, less current maturities	38,696	130,645	127,285	118,511	102,685
Shareholder's equity	167,517	192,647	197,347	194,623	167,258
Per Common Share*					
Net income (loss)					
Basic	(\$1.47)	\$(0.24)	\$0.10	\$1.37	\$1.66
Diluted	(\$1.47)	(0.24)	0.10	1.33	1.59
Book value per common share at year end	8.49	9.79	10.07	10.07	8.75
Other Data					
Weighted average number of common shares outstanding					
Basic	19,672	19,638	19,442	19,222	19,065
Diluted	19,672	19,638	19,753	19,721	19,930
Common shareholders-approximate*	3,600	5,500	6,000	6,100	4,200
Associates*	2,547	2,772	2,854	3,301	2,975

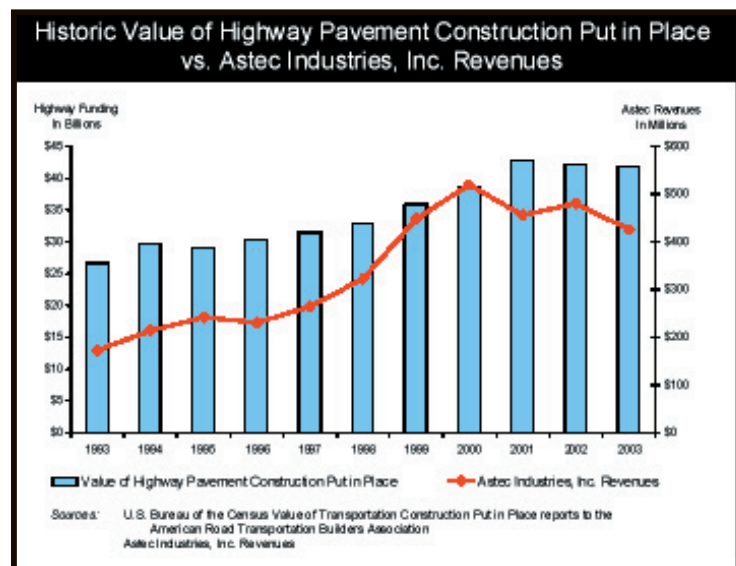


LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

This year was one of adjustment and hopefully represented the bottom of a cycle. Revenues for 2003 were \$426.6 million compared to revenues of \$480.6 million for 2002. The net loss for the year was \$29.0 million compared to the net loss for 2002 of \$4.7 million. The loss per share was \$1.47 compared to a loss of \$.24 in 2002. The primary factors driving the loss in 2003 were a \$16.3 million goodwill impairment charge, \$6.3 million of costs related to the refinancing of Astec's debt, a \$4.2 million charge related to the writedown of used equipment, pre-tax losses from the Trenchor and Astec Underground start-up operations at Loudon, Tennessee of \$8.1 million excluding their portion of the goodwill impairment and \$10.1 million of unabsorbed overhead. These and other factors affecting our financial performance are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 28.

We participate in an industry that is very cyclical. The cycles are driven by the general economy and often are accentuated either negatively or positively by federal and state highway funding. As shown in the graph below, Astec's growth was highly correlated with highway pavement construction funding put in place from 1993 to 2000. In 2000, there was a downturn in the economy which significantly impacted capital expenditure decisions by Astec's customers. Our customers have typically invested more heavily in construction equipment in the early years of a highway bill and less heavily in the later years of a bill.



Therefore, we normally do better during the early years of a highway bill than during the latter years. We believe that the current recession's impact on Astec was intensified by the expiration of the most recent six-year highway bill on September 30, 2003, even though funding has been extended through April 2004.

Adjustments to economic downturns are very painful and require a significant amount of management's energy to cut expenses in order to achieve profitability. During this three-year economic downturn, we have made some good decisions and some poor decisions; however, we believe we are emerging from this cycle much stronger, more focused and poised to take advantage of opportunities in the future.

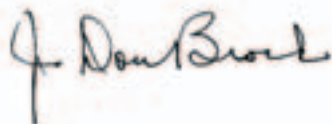
LETTER TO SHAREHOLDERS

During the four years ended 2002, we added significantly to the manufacturing capacity of the Company. In 1998, 1999 and the first six months of 2000, many of our manufacturing plants were running seven days per week, while during the downturn, we were often working as little as three to four days per week. We believe that we have the overall manufacturing capacity in our businesses to give us a significant advantage in the next upturn. Our existing manufacturing facilities would allow us to achieve volumes as high as \$700 million without significant capital expenditures.

A final resolution of the amount which will be included in the renewal of the highway bill is not in place, but each of the proposed bills offer increases over the most recent six-year highway bill that ended in September 2003. However, President Bush has stated that he prefers that the amount of funding under the long-term legislation remain at its current level for the next six years. The high price of crude oil could negatively affect the profitability of our customers but may increase the use of recycled asphalt material for which we also provide equipment. On the positive side, the weak dollar is helping our international sales and our strong parts business has provided us support during the economic downturn. We also see some of our asphalt customers vertically integrating into the aggregate business and expanding into the utility business. The trend of small companies selling out to larger national companies seems to be reversing with some of the larger companies selling divisions and entrepreneurs returning in local markets. We believe this is beneficial to our business because the smaller privately held companies have bought more equipment per dollar volume of sales within the past year. Some sales also are being generated from customers desiring to take advantage of bonus depreciation opportunities.

Looking forward into 2004, we believe that the economy is beginning to respond to the stimulus that the administration has implemented. With an upturn in the economy, state funding should improve and, with the addition of new federal highway funding, we believe that we are beginning the next growth cycle in our industry. We appreciate the continued support of our shareholders, customers and employees during the recession that we have experienced in the last three years. We look forward to an improving economy in 2004 and to improving the financial performance of the Company.

Sincerely,



J. Don Brock, Ph.D
Chairman, President & CEO
Astec Industries, Inc.



THE FUTURE OF AMERICA'S ROADS

The Importance of Surface Infrastructure

Roads are America's arteries. They carry the country's commerce. Roads allow us the freedom to work where we want to work, live where we want to live, shop where we want to shop, go to church where we want to go to church, and travel with whom and when we want to travel. The automobile is an important aspect of our personal freedom. Roads are the backbone of commerce. For these important reasons, a case needs to be made for adequate funding of these crucial, personal, and economical resources.

Some History

Our modern road system developed quickly during the past one hundred years. It is hard to imagine that a paved road was the exception in the United States around 1900, and a cross-country car trip back then meant months instead of days. One hundred years ago, Dr. Horatio Nelson Jackson, along with a mechanic, drove a Winston motorcar from San Francisco to New York. It was the first transcontinental automobile trip across the United States and took sixty-three days, twelve hours and thirty minutes. Today the trip can be easily made in three days.

Paved thoroughfares first replaced the dirt roads of the past within towns, cities and counties. The first patchwork of paved cross-country pathways was a connecting web of fairly narrow, two-lane highways. These were soon improved by the addition of safe shoulders and finally progressed to the most advanced network of interstate roads in the world. Today this network comprises approximately three million miles, connecting 290 million people in all aspects of commerce. The U.S. interstate system, originally designed to help provide for the country's military defense, is perhaps



the most important factor in driving our economic growth. Each day, this system accommodates 200 million automobiles and three and a half million trucks.

In 1957 trucks moved ten percent of American freight. Railroads hauled the rest. Today, depending on whether measured by product or tons, between seventy-two and eighty percent of all freight is moved by truck. Trucks have become the warehouse of our manufacturing enterprises. Just-in-time delivery would be impossible without our present interstate and connecting road system. In contrast, Russia still only moves about ten percent of freight by truck. Although this country has four times the landmass of the U.S., there are only 569,000 miles of roads, a mere 202,000 of which are paved. This has paralyzed the growth of the Russian economy.

The interstate highway system and our state roads are funded by the fairest type of taxation — those who use the system pay for it. At the inception of the interstate system, consumers were charged 5¢ per gallon in user fees for each gallon of motor fuel purchased. Currently, that rate is 18.3¢ per gallon. Each additional cent charged generates approximately 1.7 billion in additional dollars. However, due to inflation, \$10.00 in user fees collected in 1992 would only represent \$7.60 in buying power today. The past decade has seen no increase in highway funding, and the buying power of the money that is being collected has dropped by nearly twenty-five percent. Moreover, costs specifically related to road building, such as construction, land acquisition, fuel, aggregate, and asphalt have risen close to fifty percent.

Many sections of our interstates are in chronic gridlock. Travel on our system has increased thirty-eight percent over the last decade, while lane miles have increased only five percent. Stated another way, vehicle traffic grew at a rate of seven times that of added



capacity. It's no small wonder then that two out of five urban interstate miles are congested and produce significant delays on a daily basis. Congested miles have increased thirty-one percent from 2,342 to 3,059 in the past five years.

When construction of the interstate system began in 1956, the United States population was 168 million. Today 290 million people live in this country. That's a seventy-three percent increase and the count keeps going up. Forecasters expect population growth of sixteen percent, or 40 million people, by the year 2020. This continued growth is expected to be accompanied by increased travel, a forty percent rise in the number of cars, and an approximate fifty percent increase in the number of freight-hauling trucks. Some estimates even conclude that the number of large trucks in this country will double over the next fifteen years.

Forecasters expect population growth of sixteen percent, or 46 million people, by the year 2020.

A recent USA Today article cited the results of a commuter survey. "It's not distance that drives commuters bonkers; it's mostly congestion. The more congested the road, and the longer heavy traffic lasted, the more depressed, anxious, and frustrated people got...Gridlock is also cited as an obstacle to the ability of cities that want to attract business. The average travel time to work has increased twelve percent from a decade earlier."

A public opinion poll conducted in June of 2003 by Zogby International found that ninety one percent of U.S. population felt that the nations highway and transit network was essential to economic growth. In this same poll, seventy-seven percent of motorists said they would be willing to pay an additional 9¢ per day to insure that road conditions did not deteriorate.

The next renewal highway bill has been debated in Congress for about a year now. Our current administration is proposing six flat years while Senate and proposed House bills call for spending of \$318 billion and \$375 billion respectively. Studies show that

\$283 billion will be needed over the next six years just to maintain the system, let alone fund its growth.

It's obvious that our road system connects and affects every facet of the economy. Not only that, but roads also represent the most valuable back-up plan when there are problems with other modes of transportation. Immediately after 9/11, everything moved on roads. When natural disasters such as severe weather events or wild fires strike a region, roads are the only means of escape. Yet, when an event calls for evacuation these roads quickly become completely gridlocked.

Roughly seventy-five percent of all

military movement is by truck, and forty-five percent of all agricultural products move by truck. Moreover the strength of our national defense is directly related to the vitality of our economy. A modern, efficient, and interconnected transportation system fosters economic and national security.

Not only does an intact road network with sufficient capacity support a growing economy but also the work of road construction itself supports economic growth. Every dollar spent on highway construction generates three dollars for the economy. In contrast, each dollar spent on defense adds only \$1.60 to the overall economy. Defense spending has increased roughly sixty billion dollars over the last three years, while spending on road construction has grown by only about one billion. The \$25 trillion asset value of our road system must be preserved through adequate funding.

Lack of Funding and Safety

The condition and design of our roads have a direct effect on the safety of the people traveling on them. One hundred fifteen people are killed on our highways each day and six thousand eight hundred-fifty are injured. For every one billion dollars invested in

SECURITY

- Immediately after 9/11 everything moved on roads.
- When national emergencies occur, roads are the only means of escape and become gridlocked.
- Within the continental United States, approximately 75% of all defense movement is by truck.
- 45% of agricultural products move by truck.

115 People Are Killed On Our Roads Daily

building and upgrading the nation's highways since 1950, highway fatalities have decreased by 1,400 per year and saved American society approximately \$2 billion in health care, insurance, lost wages, and productivity costs.

Research proves that highways in good repair are safer and cause less driver fatigue. Recent studies on pavement smoothness showed that vehicles traversing smooth roads use less fuel (up to 10% less), wear tires more slowly, and require less maintenance. In addition to being safer, smoother pavements last

much longer and require less maintenance over the life of the pavement. Today we are able to build roads that have less surface variation than ever. We can take full advantage of the benefits of new, smooth roads.

What Can We Do?

How do we eliminate congestion? How do we make roads safer and reduce accidents? How do we build smoother roads that last a long time? The approach certainly needs to address sufficient money, yet there is also an innovative way of thinking about the flow of interstate traffic that is gathering steam: The next generation of highways will separate car from truck traffic with dedicated truck lanes.

Dedicated truck lanes address a number of problems. First is the fact that one heavy truck exposes a road to as much wear, and eventual damage, as 9,600 automobiles. Truck lanes can be designed and constructed specifically to support heavier loads. Lanes for auto travel will be exposed to much less weight, increasing its life span threefold.

The combination of better and safer road surfaces

and the removal of large trucks from personal car traffic will significantly reduce accidents. Reduced fuel consumption on smooth pavement would lead to reduced emissions and contribute to environmental cleanliness. Just-in-time delivery of raw materials and products would be assured. Most of the new truck lanes would be constructed next to the existing interstate systems. However, in rural areas they could be separated considerably, encouraging economic growth and further stimulating the economy.

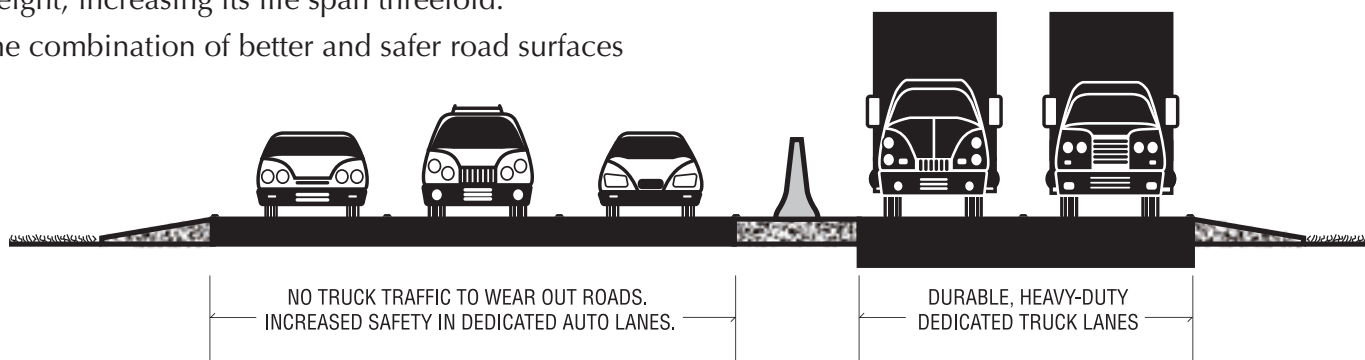
Where Does the Money Come From?

How do we pay for such a safe and efficient system and its resulting benefits? The average motorist in America drives 15,000 miles per year in a vehicle having a fuel mileage of 20 miles per gallon, leading to an average use of 750 gallons of fuel per year. The present user fee of 18.3¢ per gallon comes to \$137.00 per year or \$2.63 per week or 37¢ per day for that average motorist.

As the Zogby International survey cited above tells us, the public is willing to support a safe road system in good repair. If the user fee is increased by 10¢ per gallon, an individual would contribute an additional \$75.00 per year or 20¢ per day. This comparatively moderate amount of money would generate \$17 billion per year for road construction and repair while creating 807,500 new jobs. With this money over the next ten years we could fund the required modification of interstate highways, increase their capacity over 50%, reduce gridlock, contribute to economic growth, save lives, reduce accidents and the associated costs, have longer lasting roads, and reduce operating costs for automobiles and trucks.

The following savings would more than offset the required increase in the user fee. The direct cost of accidents drains \$230 billion per year from the economy. Disruption and delays cost us another \$70 billion per year for a total of \$300 billion. If we could reduce the number of accidents by 20%, a savings of \$60 billion per year is achieved, 8,400

ON SMOOTH ROADS AUTOMOBILES
• Burn Less Fuel
• Need Less Maintenance
• Cause Less Driver Fatigue
• Have Less Tire Wear



The Direct Cost From Automobile Accidents Drains \$230 Billion Per Year From the Economy

lives are saved, and over 500,000 injuries are eliminated. We consume in this country 170 billion gallons of motor vehicle fuel per year. Dividing fuel cost into the savings in accidents, we find that the equivalent of 37.5¢ per gallon could be saved.

Smoother roads reduce fuel consumption by 5% to 10%. Assuming fuel cost per gallon to be \$1.50, we could generate an average savings of 11¢. Better roads last longer and require less maintenance. The vehicles using them are exposed to less mechanical wear leading to an approximate savings of 3¢ per gallon in repair and tire costs. Adding all the above-mentioned savings brings their total to 52¢ per gallon. By spending 10¢ we would save 52¢.

“ Roads Build Wealth, Wealth Does Not Build Roads .”

John F. Kennedy once said, “Roads build wealth, wealth does not build roads.” The products the Astec companies manufacture are used to build and rebuild America’s infrastructure. These products allow us to build the best, longest lasting and smoothest roads in the world and make our system safe and efficient, thereby contributing to the growth of our economy.



Contributing to the Growth of Our Economy

EQUIPMENT FOR BUILDING THE WORLD'S INFRASTRUCTURE

[illegible]

Osborn

PEP

Heatec

Superior

Johnson Crushers

Telsmith

Breaker Technology

CEI

Astec



ASTEC INDUSTRIES, INC.

AGGREGATE CRUSHING PLANTS•TRACK MOUNTED CRUSHERS•VIBRATING FEEDERS•INCLINE SCREENS•PORTABLE CRUSHING PLANTS•WASHING AND SAND CLASSIFICATION SYSTEMS•HORIZONTAL SHAFT IMPACTORS•HYDRAULIC AND MECHANICAL DEMOLITION ATTACHMENTS•STATIONARY AND PORTABLE ROCKBREAKER SYSTEMS•MOBILE ROCKBREAKERS•UNDERGROUND MINING AND QUARRY UTILITY VEHICLES•DOUBLE ROLL CRUSHERS•ROTARY BREAKERS•PROCESSOR AND CONVEYOR SYSTEMS•CONVEYOR IDLERS•VIBRATING SCREENS•PORTABLE TELESCOPING STACKING CONVEYORS•OVERLAND BELT CONVEYORS•HIGH-FREQUENCY AND CONVENTIONAL VIBRATING SCREENS•CONTROL SYSTEMS•FUEL STORAGE TANKS•VERTICAL SERPENTINE HEATERS AND VAPORIZERS•VERTICAL MIXING TANKS•WASTE HEAT RECOVERY UNITS•STEAM GENERATORS•FUEL METERING SYSTEMS•TERMINAL HEATERS•PORTABLE AND STATIONARY POLYMER BLENDING SYSTEMS•JACKETED FIREBOX HEATERS•REACTION TANKS•COLD IN-PLACE RECYCLING MACHINES•RUBBER TIRE AND TRACK-DRIVEN ASPHALT PAVERS•MATERIAL TRANSFER VEHICLES•ROAD WIDENER ATTACHMENTS•SCREEDS FOR HIGHWAY CLASS AND COMMERCIAL ASPHALT PAVERS•HORIZONTAL EARTH BORING MACHINES•HORIZONTAL DIRECTIONAL DRILLS•DRILLING FLUID MIXING, CLEANING AND RECYCLING SYSTEMS

AGGREGATE CRUSHING PLANTS•TRACK MOUNTED CRUSHERS•VIBRATING FEEDERS•INCLINE SCREENS•PORTABLE CRUSHING PLANTS•WASHING AND SAND CLASSIFICATION SYSTEMS•HORIZONTAL SHAFT IMPACTORS•HYDRAULIC AND MECHANICAL DEMOLITION ATTACHMENTS•STATIONARY AND PORTABLE ROCKBREAKER SYSTEMS•MOBILE ROCKBREAKERS•UNDERGROUND MINING AND QUARRY UTILITY VEHICLES•DOUBLE ROLL CRUSHERS•ROTARY BREAKERS•PROCESSOR AND CONVEYOR SYSTEMS•CONVEYOR IDLERS•VIBRATING SCREENS•PORTABLE TELESCOPING STACKING CONVEYORS•OVERLAND BELT CONVEYORS•HIGH-FREQUENCY AND CONVENTIONAL VIBRATING SCREENS•CONTROL SYSTEMS•FUEL STORAGE TANKS•VERTICAL SERPENTINE HEATERS AND VAPORIZERS•VERTICAL MIXING TANKS•WASTE HEAT RECOVERY UNITS•STEAM GENERATORS•FUEL METERING SYSTEMS•TERMINAL HEATERS•PORTABLE AND STATIONARY POLYMER BLENDING SYSTEMS•JACKETED FIREBOX HEATERS•REACTION TANKS•COLD IN-PLACE RECYCLING MACHINES•RUBBER TIRE AND TRACK-DRIVEN ASPHALT PAVERS•MATERIAL TRANSFER VEHICLES•ROAD WIDENER ATTACHMENTS•SCREEDS FOR HIGHWAY CLASS AND COMMERCIAL ASPHALT PAVERS•HORIZONTAL EARTH BORING MACHINES•HORIZONTAL DIRECTIONAL DRILLS•DRILLING FLUID MIXING, CLEANING AND RECYCLING SYSTEMS



Kolberg-Pioneer

Roadtec

American Augers

Carlson

Astec Underground/Trencor



AGGREGATE AND MINING GROUP

Telsmith, Inc.
Mequon, Wisconsin

**Jaw Crushers • Cone Crushers • Horizontal Shaft Impactors • Vibrating Screens • Incline Screens
Portable and Stationary Plant Systems**

For almost 100 years Telsmith, Inc. has been a leader in providing innovative solutions to the challenges of the aggregate industry. The recently developed Silver Bullet Series Cone Crushers and Iron Giant Jaw Crushers exemplify this tradition and compliment the vibrating screens and feeders to complete the core product offering. Additionally, in recent years, Telsmith has lead the industry in creating efficient, low cost of operation, modular plants that significantly reduce the time and expense needed to assemble a processing plant. These innovative solutions provide our customers with reliable, high performance answers to the changing environment they work in.

During 2003, Telsmith, Inc. continued its new product development and introduced two new portable plants: a 3055 primary jaw plant and a 44SBS closed circuit cone plant continued the development of it's new modular plants. These plants incorporate modern technology to combine increased productivity and ease of operation with enhanced mobility.

Customer support through training, parts availability and service is a differentiating focus for Telsmith, Inc. It is the dedication of our employees to this difference that creates an economic advantage for our customers around the world.



Two-stage modular crushing plant located in West Virginia.



Three-stage crushing plant crushing granite in Georgia.



Telsmith, Inc.
10910 N. Industrial Drive
Mequon, WI 53092
Phone (262) 242-6600
www.telsmith.com

AGGREGATE AND MINING GROUP



5060 Iron Giant jaw crusher primary crushing station.



Two model 57SBS cone crushers operating in an automated closed circuit.



Modular screening plant incorporating roll-away chutes.



Model 52SBS producing asphalt materials from granite.



Model 52SBS cone crusher equipped with Dynamic adjustment system.



High production model 3055 portable jaw crusher plant.

AGGREGATE AND MINING GROUP

Kolberg-Pioneer, Inc.

Yankton, South Dakota

Track-Mounted Jaw Crushers • Track-Mounted Horizontal Shaft Impactor Crushers • Fast Pack® Jaws & Control Trailers • Fast Pack® Conveyors • Jaw Crushers • Vertical Shaft Impactors • Horizontal Shaft Impactors Washing & Sand Classification Equipment • Portable Crushing & Screening Plants • Portable & Stationary Conveyors

KPI can trace its roots back to 1928 with a history of engineering superior quality products. The spirit of innovation is seen in current KPI products.

KPI and Johnson Crushers share a common sales/marketing team and dealer network. KPI/JCI provide the largest selection of aggregate processing equipment available from a single source. Together, this distribution channel offers the aggregate and recycle industries a local representative in every state.

In 2003, KPI's new Rocky Trax Crushers have seen steady growth and now have added a Track-Mounted Horizontal Shaft Impactor to the product line. These products were engineered for producers who want to lower costs with highly portable crushers.



Stationary jaw crusher and systems.



The new 4250 Rocky Trax crusher.

The FastPack is the only 500 TPH plant that can be mobilized in under 3 hours.



Kolberg-Pioneer, Inc.
700 W. 21st Street
Yankton, SD 57078
Phone: (605) 665-9311
www.kolbergpioneer.com

AGGREGATE AND MINING GROUP

Johnson Crushers Intl., Inc.

Eugene, Oregon

**Fast Pack® Cone Crushing Plants • Fast Pack® Screen Plants • COMBO Screens • Horizontal Screens
Incline Screens • Kodiak Roller Bearing Cone Crushers**

Together KPI/JCI designed and co-market the FastPack. This revolutionary design has changed the way aggregate producers view their assets. With multiple units sold in 2003, the 2004 sales look to be even higher as more producers begin to understand the significant savings that can be realized. The FastPack has proven itself to be the low cost production facility allowing its owners to realize significant cost savings. It is the only 500 TPH plant that can be mobilized in under 3 hours. The FastPack's quick mobilization creates an opportunity for its owners to replace multiple, underutilized production facilities with a single high production unit. The mobilization advantage adds days to the crushing schedule versus lost time in set up and tear down of traditional production facilities.



8x20 horizontal screening plant.

JCI's innovative KODIAK crusher earned increased market penetration in 2003. This heavy duty, reliable cone crusher has excellent production characteristics. JCI also offers the COMBO Screen. An innovative design that combines the best performance features of incline and horizontal screens in a single unit. JCI also produces portable chassis for its cone and screen product offerings. New product development continues to be the focus with several new product introductions planned for 2004.



Kodiak 400 jaw crusher.



Portable cone crushing plant.



Johnson Crushers Intl., Inc.
86470 Franklin Blvd.
Eugene, OR 97405
Phone: (541) 736-1400
www.jcieug.com



AGGREGATE AND MINING GROUP

Breaker Technology, Ltd.

Thornbury, Ontario, Canada

Breaker Technology, Inc.

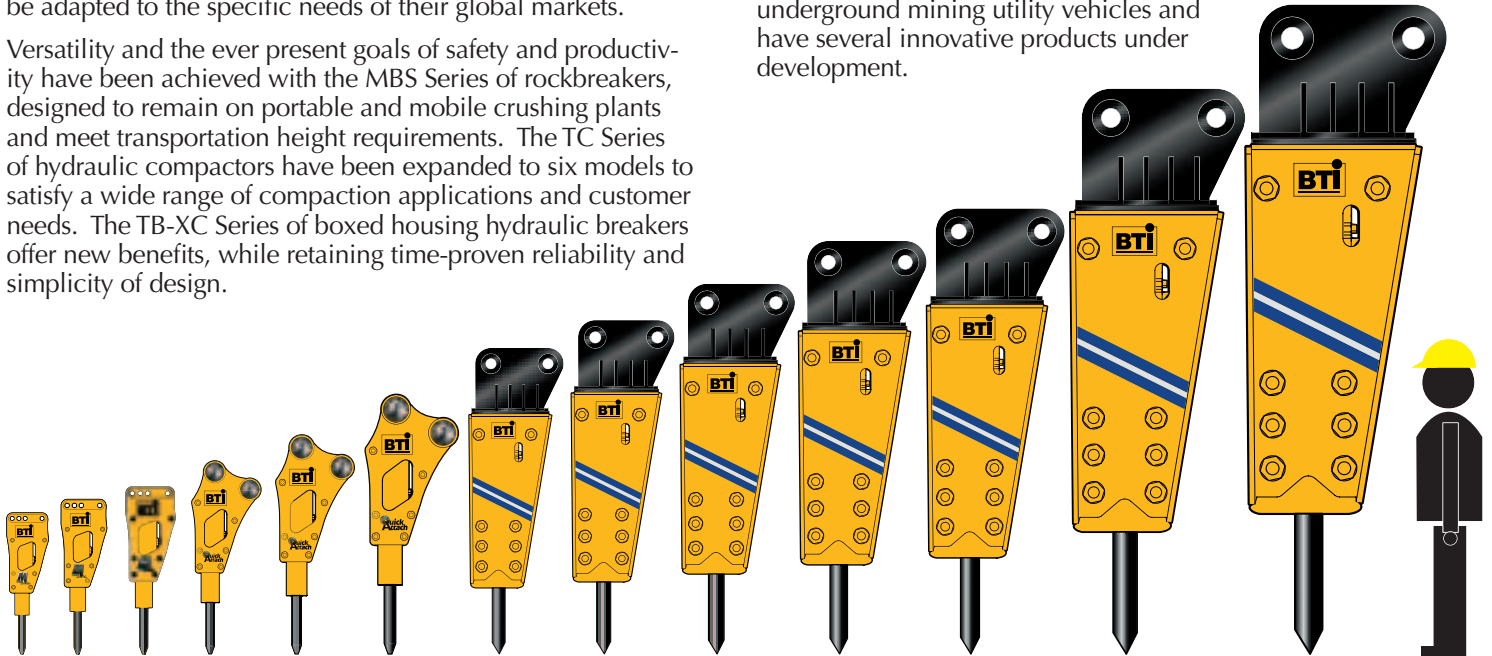
Solon, Ohio & Riverside, California

**Hydraulic Breakers • Hydraulic and Mechanical Demolition Attachments • Vibratory Compactors
Stationary and Portable Rock Breaker Systems • Mobile Rock Breakers • Underground Mine and
Quarry Utility Vehicles**

With a strong reputation for performance in the aggregate, construction, demolition and mining markets, Breaker Technology's diverse line of products continues to grow and be adapted to the specific needs of their global markets.

Versatility and the ever present goals of safety and productivity have been achieved with the MBS Series of rockbreakers, designed to remain on portable and mobile crushing plants and meet transportation height requirements. The TC Series of hydraulic compactors have been expanded to six models to satisfy a wide range of compaction applications and customer needs. The TB-XC Series of boxed housing hydraulic breakers offer new benefits, while retaining time-proven reliability and simplicity of design.

Every underground mining operation has special needs based upon the required coverage and production capacity. Breaker Technology engineers continue to provide custom-fit underground mining utility vehicles and have several innovative products under development.



With thirteen models to choose from, BTI offers a breaker for all job requirements.



MBS series rockbreakers for crushing plants.



TB-XC hydraulic breaker and MCP1000 hydraulic pulverizer.



Mobile underground mining equipment.



Breaker Technology, Ltd
35 Elgin Street
Thornbury, Ontario, Canada
NOH 2P0
Phone: (519) 599-2015
www.rockbreaker.com

AGGREGATE AND MINING GROUP

Osborn Engineered Products, SA (Pty) Ltd.

Johannesburg, South Africa

Jaw Crushers • Cone Crushers • Double Roll Crushers • Rotary Breakers • Processing and Conveyor Systems • Conveyor Idlers • Vibrating Screens and Feeders

Osborn's product offering includes machines, replacement parts, factory rebuilds, idlers and project systems. In early 2003 the commissioning of a turnkey primary crushing tip system and associated conveyors from one of South Africa's large mining groups included a combination of these products.

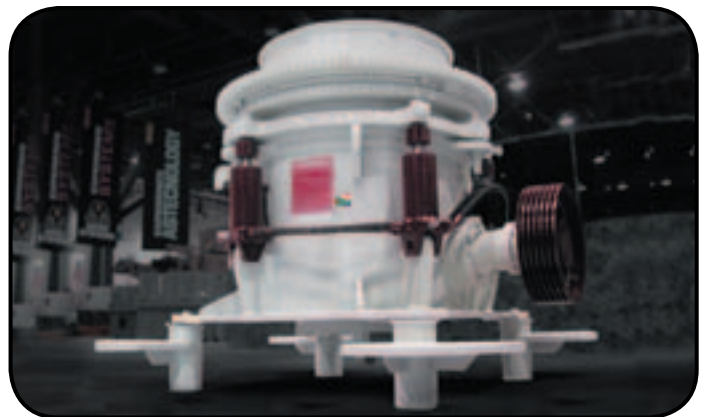
2003 saw the introduction and launch of the Osborn Track 3042 mobile track unit. South Africa's first locally-manufactured primary jaw crusher track unit, features an Osborn Telsmith 3042 jaw crusher, 1050-mm-wide discharge conveyor and 4212 Osborn Telsmith vibrating grizzly feeder. The mobile track unit is set to be a popular addition to Osborn's product offering.

Osborn is proud to have attained the ISO 18000 Health and Safety accreditation as well as ISO 9001-2000 Quality registration in 2003. The company is now fully aligned with the ISO systems, also having previously been awarded an ISO 14001 Environmental listing.

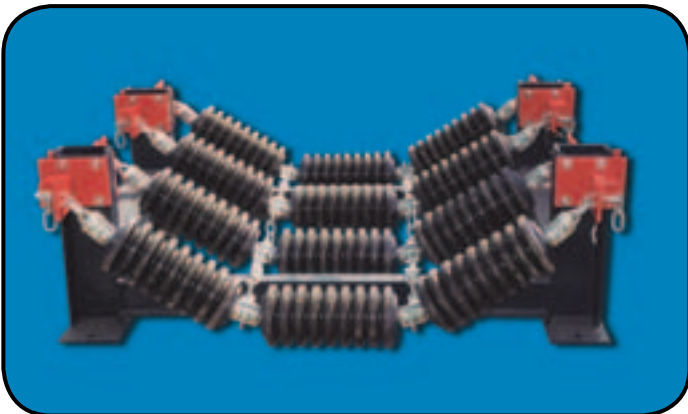
Osborn was also awarded official accreditation as a "Proudly South African" company. "Proudly South African" is an exciting new campaign to promote South African companies, products and services which are helping to create jobs and economic growth in South Africa.



Overland Conveyor System.



Osborn cone crusher.



Impact idler bed.



Osborn IFE excitor driven vibrating screen.

Osborn Engineered Products, SA (Pty) Ltd.
57 Jansen Road
Elandsfontein 1406
South Africa
Phone: 011-27-11-820-7600
www.osborn.co.za



AGGREGATE AND MINING GROUP

Superior Industries of Morris, Inc.

Morris, Minnesota

Portable and Stationary Conveyors • Conveyors Idlers and Pulleys • Portable Telescoping Stacking Conveyors • Overland Belt Conveyors

Superior Industries continues to advance an extensive line of portable and stationary conveying equipment, conveyor idlers, and conveyor pulleys. In 2003, product development included several new products such as the new 40 series idler as well as improvements to existing product lines. Advancements with the automation of the TeleStacker™ Conveyor product line allows for a multitude of uses such as precision bin loading, barge loading, and unique con-

figurations of stockpiles. Other additions to the TeleStacker line include a new pit portable design that compliments our patented road portable design. These products along with the entire product line of Superior Industries have been engineered to increase productivity levels of construction aggregate producers around the world.



Extender™ series conveyor.



TeleStacker™ series conveyor.



Stackable conveyor system.



Superior conveyors in the Bahamas.



Superior Industries of Morris, Inc.
Highway 28 East, Bldg. #1
Morris, MN 56267
Phone: (262) 242-6600
www.superior-ind.com



Idlers and pulleys.

AGGREGATE AND MINING GROUP

Production Engineered Products, Inc.

Sterling, Illinois

Portable Screening Plants • Portable and Stationary Screening Plants • High Frequency and Conventional Vibrating Screens

Production Engineered Products, Inc (PEP) continues to improve and advance an extensive line of screening plant solutions. Our products are being used in the crushed stone, recycle, sand & gravel, coal and construction markets.

In 2003 PEP was able to solidify its leadership role in the processing of recycled asphalt (RAP) at hot mix asphalt facilities. With our high-frequency screens asphalt producers can improve mix quality while increasing recycle content in their products, thereby reducing operating costs. The economic advantages of high-frequency screens in the crushed stone markets include reduction of waste and the ability to separate out other salable material.

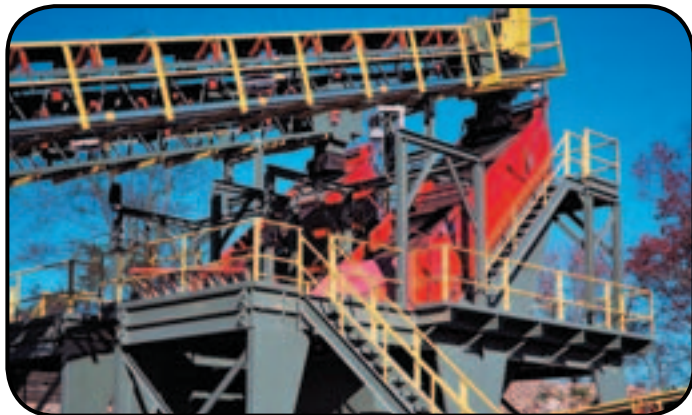
In 2003, PEP introduced the first Fold 'n Go® track mobile screening plant. This plant will greatly improve mobile operations for the material producer and can be combined with track mobile crushers. Also, this past year PEP continued to see an increase in their heavy-duty, modular-design screen structures for the aggregate market. These products along with the entire product line of screening solutions center on superior design and productivity for the material processing industry around the world.



Fold N' Go with high frequency screen.



Fold N' Go track series.



Modular tower structure with high frequency screen.



Portable screening plant with high frequency screen.

Production Engineered Products, Inc.
2704 West LeFevre Road
Sterling, IL 61081
Phone (815) 626-6374
www.pepscreen.com



ASPHALT GROUP

Astec, Inc.

Chattanooga, Tennessee

Stationary, Relocatable and Portable Hot Mix Asphalt Plants • Control Systems

Astec, Inc. manufactures and markets hot mix asphalt plants, components for these facilities and computer control systems. Astec remains the U.S. market leader in its core product: hot mix asphalt facilities.

In 2003 Astec, Inc. launched a new line of burners under the Phoenix™ brand name. These burners use less fuel and are much quieter than other brands. The burners are capable of using either oil or gas fuel and can switch over from one to the other by simply turning a valve. This allows producers greater choices in their fuel purchases. Astec plants have become more efficient overall in 2003 due to the introduction of variable frequency drive controls on burner blowers

and exhaust fans. Use of this technology enables producers to enjoy significant electrical power cost savings.

The Total Control 2000 (TC2000) facility control system is being well received in the market place after its launch in 2002. This sophisticated control system allows operators to run the entire hot mix asphalt facility with a personal computer. The TC2000 replaces the old-style push button consoles. By giving producers more precise control over their processes, they can increase efficiency and profitability.

Astec, Inc. continues to maintain and build customer loyalty through innovation and exceptional customer support.



Skid-mounted, relocatable hot mix asphalt facility.



Mobile, self-erecting hot mix asphalt facility.



Astec, Inc.
4101 Jerome Avenue
Chattanooga, TN 37411
Phone: (423) 867-4210
www.astecinc.com

ASPHALT GROUP



Batch plants are manufactured in a range of capacities.



TC 2000 controls for HMA plants eliminate old style controls.



The super-efficient Double Barrel® drum mixer.



Accu-Swipe® belt sampler, a part of the real-time quality control system.



Astec's new aggregate drying burner, the Phoenix™ Talon.



Automatic gradation unit for real time quality control.

ASPHALT GROUP

Heatec, Inc.

Chattanooga, Tennessee

**Helical Coil Heaters • Asphalt Cement Tanks • Fuel Storage Tanks • Convectec® Heaters • Vertical Serpentine Heaters/Vaporizers • Vertical Mixing Tanks • Waste Heat Recovery Units • Steam Generators
Fuel Metering Systems • Terminal Heaters • Portable and Stationary Polymer Blending Systems**

Heatec designs, manufactures and markets heating and storage equipment for the Hot Mix Asphalt (HMA) industry, as well as heaters and heat transfer equipment for other industries.

In 2003 Heatec introduced a new heavy fuel preheater to the asphalt industry. It maintains fuel temperature with remarkable precision, resulting in higher burner efficiency and lower operating costs for asphalt plants. Heatec offers the preheater in a fully packaged skid.

Heatec implemented new design changes and manufacturing methods to improve its manufacturing efficiency in 2003.

These changes brought about design improvements to Heatec's well-known helical coil heater and Heli-Tank™ products. Design changes greatly improve manufacturing efficiency, allowing them to be competitively priced while remaining superior over competitive products.

Heatec continues building on its established reputation in the offshore oil drilling industry. In 2003 Heatec produced a heating system for PEMEX in Mexico. The system will be used in the Gulf of Mexico.



Heatec's vertical AC tanks have the industry's best insulation.



Heating system for PEMEX offshore platform includes a vertical 3-pass heater and explosion-proof control panel.



Heatec Heli-Tank unit combines a helical coil heater with a portable asphalt tank.



Heatec HC100 heater and bolt-on manifold.



Heatec preheater skid includes components for heating, filtering and circulating heavy fuel.



Heatec, Inc.
5200 Wilson Road
Chattanooga, TN 37410
Phone: (423) 821-5200
www.heatec.com

ASPHALT GROUP

CEI Enterprises, Inc.

Albuquerque, New Mexico

**Asphalt Cement Tanks • Helical Coil Heaters • Jacketed Firebox Heaters • Fuel Tanks • Reaction Tanks
Asphalt Rubber Blending Systems • Nomad™ Portable Hot Mix Asphalt Facilities**

CEI Enterprises, known for quality and reliability, continues to be a leader in the asphalt storage and heating industry. In 2003 CEI and Heatec saw renewed interest in waste oil fired heaters and fuel oil preheaters. As fuel costs continue to rise, more asphalt producers will continue to switch to waste oil because of the large fuel cost savings.

An established leader in asphalt/rubber blending systems, CEI introduced the industry's first three-compartment reaction tank for rubberized asphalt in 2003. This design

increases the throughput of the blending process by up to 50 percent, offering producers higher productivity without significant increase in equipment costs.

In 2003 CEI introduced new features to its line of Nomad™ portable asphalt plants. The new features enhance durability and ease of operation. Since 2000, CEI Nomad plants have established a solid reputation in international markets. CEI now offers the plants domestically as well.



Nomad™ portable HMA plants are available in 80 and 130 ton per hour capacities.



Three-compartment rubberized asphalt reaction tank.



Fully modulating heavy oil preheater rated at 1000 GPH.



Vertical asphalt tanks with mixers and vent condensers.

CEI Enterprises, Inc.
245 Woodward Road, SE
Albuquerque, NM 87102
Phone: (505) 842-5556
www.ceienterprises.com



MOBILE ASPHALT PAVING GROUP

Roadtec, Inc.

Chattanooga, Tennessee

Cold Planers • Cold In-Place Recycling Machines • Sidecutter Attachments • Rubber Tire and Track-Driven Asphalt Pavers • Shuttle Buggy® Material Transfer Vehicle • Road Widener Attachments

Roadtec designs, manufactures and markets a complete line of mobile asphalt paving and cold planing equipment. More new products are being developed for 2004. More compact, lighter 3 and 4-track half-lane cold planers made their debut in March of 2003 and have been very well received. A new low-profile design, highway-class asphalt paver is now on the market in a rubber-tired and rubber-track version. This new paver certainly has the potential to increase Roadtec's market share.

The important component of Roadtec's core product offering continues to be the revolutionary Shuttle Buggy® material transfer vehicle. The improved SB-2500C version Shuttle Buggy® material transfer vehicle came to market in the summer of 2002. Helping paving contractors achieve the highest level of pavement quality continues to be job one at Roadtec, Inc. In addition, all Roadtec products are designed for maximum utilization while providing for high productivity and low overall maintenance costs.



The 500 horsepower RX 500 comes in either a 3-track or 4-track design.



The RP 155 is a rubber-track version of the RP-150 with superb tractive effort.



The RP-150 rubber tire paver is a commercial class paver with plenty of power.



The SB 2500C Shuttle Buggy® material transfer vehicle allows the smoothest roads possible.



The RP-190 is a newly designed, low profile, 200 horse power highway class paver.



Roadtec, Inc.
800 Manufactures Road
Chattanooga, TN 37405
Phone: (423) 265-0600
www.roadtec.com

MOBILE ASPHALT PAVING GROUP

Carlson Paving Products, Inc.

Tacoma, Washington

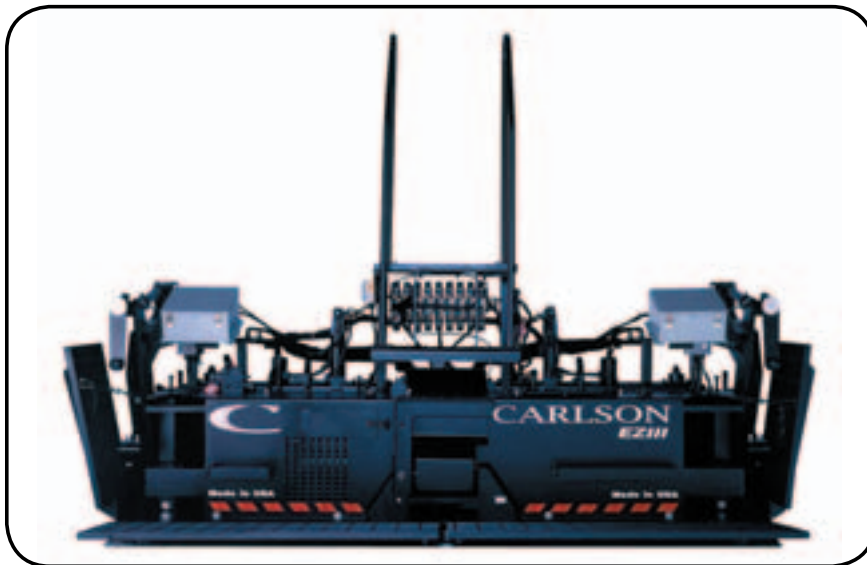
Screeds for Highway Class and Commercial Pavers • Cold Planers • Windrow Pick-Up Machines

Carlson Paving Products is the leading manufacturer of electrically heated screeds for the asphalt paving industries. During 2003 Carlson Paving Products has developed several new machine designs, which will be introduced in the first quarter of 2004.

A lighter 8 foot screed for smaller commercial pavers, the "Roadmaster." This gives Carlson a new opportunity to participate in a large segment of the paving machine market. In 2003 Carlson developed a new attachment for

their CP1220 milling machine. The RUMBLE STRIP head will give contractors a cost effective alternative to lay rumble strips on interstate and county roads.

Also in 2003 Carlson added to its product line an all new windrow pick-up machine, model WP800. This will allow contractors the ability to use belly dumps with the WP800, that includes remixing capability for continuous paving resulting in smoother roads.



Carlson EZ III Screed was updated to a new more efficient heat system and continues to be a popular choice for paving contractors.



The CP 1220 utility planer with the new rumble strip attachment.



The WP800 will give contractors the option for continuous paving for smoother roads

Carlson Paving Products, Inc.
18425 50th Avenue East
Tacoma, WA 98446
Phone: (253) 875-8000
carlsonpavingproducts.com



UNDERGROUND GROUP

Astec Underground, Inc.

Trencor, Inc.

Loudon, Tennessee

American Augers, Inc.

West Salem, Ohio

Trenchers • Auger Boring Machines • Horizontal Directional Drills • Drilling Fluid Mixing, Cleaning and Recycling Systems • Downhole Tooling for Auger Boring and HDD Equipment

Astec Underground provides tomorrow's underground construction solutions today by being the industry-leading supplier of the broadest line of trenchers, horizontal directional drills, drilling fluid systems, horizontal auger boring machines, downhole tooling and accessories. Astec Underground offers the best value, productivity and return on investment in the industry by combining application expertise and innovative, high quality American Augers® and Trencor® products with the proven value of the Astec® (formerly Case Construction Equipment's) utility products. Astec- and Case®-branded utility construction products are available through Astec Underground's and Case's worldwide dealer network. American Augers and Trencor products are available factory-direct for shipment anywhere in the world. This distribution strategy enhances Astec Underground's ability to support and service its customers, wherever they may be. With the combination of these product lines and the ability to distribute products throughout the world, Astec Underground has solidified its leadership position in the underground construction equipment market.

Astec Underground, American Augers and Trencor are dedicated to the development of versatile and productive under-

ground construction equipment that offers best-in-industry durability, efficiency and low cost of ownership. By leveraging over 80 years of application expertise, the innovative design and production processes at Astec Underground demonstrate an on-going commitment to the underground construction market and the continued success of its customers.

In 2003, a number of new products and innovative enhancements were developed to meet the needs of the underground construction professional. American Augers developed the Quik-Trac™ fast return system for auger boring machines and Run-On-One Technology™ for their Maxi-Rig directional drills. An innovative new 185 horsepower Astec trencher was developed to take advantage of the market's need for a larger utility trencher. Astec Underground also updated a number of the utility trenchers and directional drills to offer improved versatility and productivity. Trencor's 3000SM Surface Miner, a massive specialty rock excavation machine, was also introduced in 2003.

The company's focus on the utility, telecommunications, aggregate mining and production, and the oil and gas markets will enable Astec Underground to expand their worldwide application expertise as they continue to lead the industry in innovation and cost-effective customer solutions.



Astec Underground offers a full spectrum of machinery for all your utility construction needs.



Astec Underground Inc. & Trencor Inc.
9600 Corporate Park Drive
Loudon, TN 37774
Phone: (865) 408-2100
Toll Free: (800) 527-6020
www.astecunderground.com



Astec's utility line of trenchers includes the versatile Astec 960.

UNDERGROUND GROUP



The Trenchor 3000 SM Surface Miner can excavate rock in a 10-foot wide path up to 26 inches deep.



Trenchor trenchers are at work installing pipelines for gas and oil transmissions all over the world.



Trenchor's massive 1660 HDE trencher at work in Nova Scotia, Canada.



The Astec Underground ML 185, one of the new products developed in 2003, is available in a variety of sizes.



American Augers 48-900 G2 auger boring machine incorporates the Quick-Track™ fast return system.



American Augers Maxi Rig horizontal directional drill.

American Augers, Inc.
Sales & Manufacturing Office
135 US Route 42
West Salem, OH 44287
(419) 869-7107
Toll Free (800) 324-4930
www.americaugers.com





Astec Industries Inc. • 1725 Shepherd Road • Chattanooga, TN 37421

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except as noted*)

	2003	2002	2001	2000	1999
Consolidated Income Statement Data					
Net sales	\$426,613	\$480,590	\$455,839	\$520,688	\$449,627
Selling, general and administrative expenses	69,463	72,407	71,691	69,011	56,280
Goodwill impairment	16,261				
Relocation and start-up expenses		3,277			
Research and development	8,308	7,631	7,448	6,726	5,356
Income (loss) from operations	(23,169)	616	11,784	47,138	52,521
Interest expense	7,289	10,474	9,367	8,652	4,253
Senior note termination expense	3,837				
Net income (loss)	(28,964)	(4,706)	1,992	26,281	31,712
Earnings (loss) per common share*					
Basic	(1.47)	(.24)	.10	1.37	1.66
Diluted	(1.47)	(.24)	.10	1.33	1.59
Consolidated Balance Sheet Data					
Working capital	\$ 81,001	\$173,224	\$161,867	\$153,389	\$127,569
Total assets	320,956	416,979	400,691	398,795	355,437
Total short-term debt	36,685	3,220	2,368	1,986	596
Long-term debt, less current maturities	38,696	130,645	127,285	118,511	102,685
Shareholders' equity	167,517	192,647	197,347	194,623	167,258
Book value per common share at year-end*	8.49	9.79	10.07	10.07	8.75

Quarterly Financial Highlights (Unaudited)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2003	Net sales	\$122,128	\$109,840	\$106,870	\$87,775
	Gross profit	20,607	19,928	18,313	12,016
	Net income (loss)	(1,830)	(2,212)	(785)	(24,137)
	Earnings (loss) per common share*				
	Basic	(.09)	(.11)	(.04)	(1.23)
	Diluted	(.09)	(.11)	(.04)	(1.23)
2002	Net sales	\$122,442	\$126,669	\$126,100	\$105,379
	Gross profit	27,876	26,625	20,762	8,668
	Net income (loss)	4,635	2,407	(1,438)	(10,310)
	Earnings (loss) per common share*				
	Basic	.24	.12	(.07)	(.52)
	Diluted	.23	.12	(.07)	(.52)

Common Stock Price *

2003 High	\$10.25	\$ 9.33	\$12.72	\$14.08
2003 Low	5.21	5.50	8.35	9.75
2002 High	\$18.10	\$19.80	\$16.48	\$11.00
2002 Low	9.30	14.73	8.30	8.45

The Company's common stock is traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market under the symbol ASTE. Prices shown are the high and low bid prices as announced by NASDAQ. The Company has never paid dividends on its common stock.

As determined by the proxy search on the record date by the Company's transfer agent, the number of common shareholders is approximately 3,600.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements. For additional information regarding forward-looking statements, see "Forward-looking Statements" on page 36.

Results of Operations; 2003 vs. 2002

The Company experienced a net loss for 2003 of \$28,964,000, or \$1.47 per diluted share, an increase of \$24,258,000, compared to a net loss of \$4,706,000, or \$.24 per diluted share in 2002. The weighted average number of common shares outstanding at December 31, 2003 was 19,671,697 compared to 19,638,103 at December 31, 2002.

Net sales for 2003 were \$426,613,000, a decrease of \$53,977,000, or 11.2%, compared to net sales of \$480,590,000 in 2002.

Domestic sales decreased from \$401,284,000 in 2002 to \$331,004,000 in 2003, a decrease of \$70,280,000, or 17.5%. Domestic sales are primarily generated from equipment purchases made by customers for use in construction for privately funded infrastructure development and public sector spending on infrastructure development. Public sector spending at the federal, state and local levels is driven in large part by federal spending under the six-year federal-aid highway program, the Transportation Equity Act for the 21st Century ("TEA-21"), enacted in June 1998. TEA-21 authorized the appropriation of \$217 billion in federal aid for road, highway and bridge construction, repair and improvement and other federal highway and transit projects for federal fiscal years October 1, 1998 through September 30, 2003. A new appropriation was enacted setting funding at a level of \$33.6 billion for October 1, 2003 through September 30, 2004, but authorizing payment of such funds only through February 29, 2004. The date has been extended until April 30, 2004. The Company believes the primary factor that caused its domestic sales to be negatively impacted in 2003 continued to be the general slowdown in the economy. Offsetting the decrease in domestic sales in 2003 were sales of \$20,984,000 in small trenchers, a new product line in 2003. Excluding the sales of small trenchers, domestic sales in 2003 would have decreased \$91,264,000 compared to 2002.

In 2003 international sales increased \$16,303,000, or 20.6%, to \$95,609,000 compared to 2002 international sales of \$79,306,000. International sales increased the most in Europe, followed by Africa, Australia and China. Sales declined by \$4,083,000 in Central America, followed by South America with a decline of \$1,499,000. The weaker dollar contributes to the increase, and the local economy of each country has a major impact.

Parts sales were \$99,980,000 in 2003 compared to \$99,791,000 in 2002. The Company believes that parts sales did not change significantly in 2003 compared to 2002 as a result of the continued sluggish economy, which causes customers to repair rather than purchase new equipment.

Gross profit decreased to \$70,864,000, or 16.6% of net sales in 2003, compared to \$83,931,000, or 17.5% of net sales in 2002. The primary factors that caused gross profit in 2003 to decrease from the gross profit in 2002 include: an under utilization of capacity of \$10.1 million, decreased sales volumes in the Asphalt and Aggregate Groups as described below, decreased prices as a result of competitive price pressure, continued start-up losses at the Loudon, Tennessee facility of \$8.1 million and writedown of used and rental equipment of \$4.2 million. These factors were offset by the manufacturing expenses, including labor and manufacturing overhead, being reduced \$10.1 million in 2003 versus 2002.

In 2003 selling, general and administrative ("SG&A") expenses decreased by \$2,944,000 to \$69,463,000, or 16.3% of 2003 net sales, from \$72,407,000, or 15.1% of net sales in 2002. The decrease in SG&A in 2003 compared to 2002 was primarily due to lower payroll and related taxes, health insurance, legal, professional, advertising and marketing expenses. The decrease in SG&A was partially offset by additional SG&A expenses of \$2,926,000 related to the small trencher product line that was added in 2003 at the Loudon, Tennessee facility. An additional offset of \$2,470,000 in refinancing expense was included in SG&A.

Goodwill impairment charges of \$16,261,000 were booked in 2003 as a result of evaluations completed under Statement of Financial Accounting Standards No. 142 for each reporting unit. By operating segment, the charges are \$11,734,000 for the Underground Group, \$1,287,000 for the Aggregate Group, \$2,310,000 for the Mobile Asphalt Paving Group, and \$930,000 for the Asphalt Group.

Relocation and start-up expenses in 2002 related to the move from Grapevine, Texas to Loudon, Tennessee and the move of the small trencher product line from Wichita, Kansas to Loudon, Tennessee.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Research and development expenses increased by \$677,000, or 8.9%, from \$7,631,000 in 2002 to \$8,308,000 in 2003. The increase is related to the increased expenses of the expanded operations at Loudon, Tennessee. Research and development expenditures resulted in new products and product enhancements introduced in 2003.

Interest expense for 2003 decreased by \$3,185,000, or 30.4%, to \$7,289,000 from \$10,474,000. This equates to 1.7% of net sales in 2003 compared to 2.2% of net sales for 2002. The decrease in dollars related to reduced debt levels and more favorable interest rates after a new credit arrangement was entered into in May of 2003.

Senior note termination expense of \$3,837,000 was incurred in 2003 as part of the refinancing of debt in May 2003. This amount is in addition to the \$2,470,000 of refinancing expenses included in SG&A.

For 2003, the Company had a net income tax benefit of \$4,486,000, or 13.4% of the pre-tax loss, compared to the 2002 benefit of \$2,511,000, or 35.2% of the 2002 pre-tax loss. The largest contributor to the reduction in the effective tax benefit rate was non-deductible goodwill impairment charges of \$15,851,000. Additionally, the establishment of a \$1,049,000 valuation allowance for certain state tax loss carryforwards reduced the effective tax rate. The Company expects to utilize the remaining deferred tax asset in connection with future profitability, expected gain on the eventual sale of the Grapevine, Texas facility, increased backlog and the improving economy. There can be no assurances that these events will occur and there are no assurances that the remaining net deferred tax asset will be fully realized.

The backlog at December 31, 2003 was \$79,402,000 compared to \$60,698,000 at December 31, 2002, which represents a 30.8% increase. The backlog for the Asphalt Group decreased slightly, while backlogs for Aggregate, Mobile, and Underground Groups increased. The Company is unable to determine whether this backlog effect was experienced by the industry as a whole. We are unable to assess the amount of the impact attributable to the TEA-21 legislation, which became effective in October 1998 and ended September 30, 2003. New long-term legislation is under consideration and the funding for October 1, 2003 through April 30, 2004 has been authorized. The Company believes that customers are looking forward to a six-year renewal of federal highway funding. The Company believes the increased backlog reflects an improvement in customer confidence that the economic conditions in the United States are improving, which should result in increased state fuel tax revenue and increased commercial projects.

Even though the funding has only been authorized through April 2004, extension of TEA-21 funding through September 2004 has been set at \$33.6 billion compared to \$31.6 billion in 2003. Unquestionably, the Company believes that increased funding is needed to restore the nation's highways to a quality level required for safety, fuel efficiency and mitigation of congestion. In the Company's opinion, amounts needed are significantly above amounts proposed and funding mechanisms such as the federal usage fee per gallon, which has not been increased in eleven years, would need to be increased along with other measures to generate the funds needed.

Asphalt Group: For 2003, this segment had sales of \$119,302,000 compared to \$165,951,000 for 2002, a decrease of \$46,649,000, or 28.1%. The segment loss for 2003 was \$2,712,000 compared to a profit of \$3,127,000 for 2002, for a decrease of \$5,839,000. The primary reason for the decrease in sales is the decrease in domestic equipment sales. Continuing competitive price pressure, under utilization of capacity, and writedowns and loss on used equipment significantly impacted gross profits and segment income. The goodwill impairment impact to this segment was \$929,000.

Aggregate and Mining Group: For 2003, sales for this segment decreased \$21,652,000, or 10.9%, to \$177,708,000 compared to \$199,360,000 for 2002. The decrease in domestic sales was primarily due to reduced aggregate equipment sold as a complete system. Segment profit for 2003 decreased \$2,784,000, or 35.2%, to \$5,124,000 from \$7,908,000 for 2002. Competitive price pressure, under utilization of capacity, cost overruns on systems jobs, sale of used equipment, unfavorable exchange rates and warranty costs impacted gross profit and segment income. Goodwill impairment for this segment was \$1,287,000.

Mobile Asphalt Paving Group: For 2003, sales in this segment increased \$3,247,000, or 4.5%, to \$75,153,000 from \$71,906,000 in 2002. Both domestic and international sales increased from 2002. Segment profit for 2003 decreased \$3,592,000, or 86.5%, to \$560,000 from \$4,152,000 for 2002. Writedown of and loss on sales of used equipment were the primary factors that negatively impacted the 2003 profit. Goodwill impairment charges of \$2,310,000 were booked in 2003 for this segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Underground Group: For 2003, sales in this segment increased \$12,955,000, or 32.8%, to \$52,410,000 from \$39,455,000 for 2002, primarily due to the addition of the Case small trencher product line. Segment losses for 2003 increased \$13,544,000, or 160.1%, to a loss of \$22,004,000 from a loss of \$8,460,000 during 2002, primarily from goodwill impairment charges of \$11,734,000 and under utilization of capacity and continued start-up expenses of the Case and Trenchor product lines in Loudon, Tennessee of \$8.1 million, excluding goodwill. In 2002, relocating the Case New Holland product line from Kansas to Tennessee and the associated start-up expenses in Loudon totaled approximately \$3,277,000 in 2002.

Results of Operations; 2002 vs. 2001

The Company experienced a net loss for 2002 of \$4,706,000, or \$.24 per diluted share, a decrease of \$6,698,000 compared to net income of \$1,992,000, or \$.10 per diluted share in 2001. The weighted average number of common shares outstanding at December 31, 2002 was 19,638,103 compared to 19,753,226 at December 31, 2001.

Net sales for 2002 were \$480,590,000, an increase of \$24,751,000, or 5.4%, compared to net sales of \$455,839,000 in 2001.

Domestic sales increased from \$364,428,000 in 2001 to \$401,284,000 in 2002, an increase of \$36,856,000, or 10.1%. During 2002, domestic sales continued to be impacted by a general economic slowdown throughout the year. Sales increased in the Asphalt and Aggregate Groups. In the Asphalt Group, parts sales, international sales, used equipment and systems jobs sales increased. Systems sales were the primary reason for the sales increase.

International sales decreased \$12,105,000, or 13.2%, in 2002, to \$79,306,000, compared to 2001 international sales of \$91,411,000. Sales declined by \$10,740,000 in Central America. This decrease affected all segments except Asphalt. The second largest decrease was in Europe, with a decline in all segments totaling \$6,830,000. In Central America, this change was primarily the result of one large systems job for approximately \$8,769,000 in 2001. In Europe, the primary declines were in systems, mobile paving equipment and underground drilling equipment.

Parts sales increased from \$93,493,000 in 2001 to \$99,791,000 in 2002, an increase of \$6,298,000, or 6.7%. All segments focused heavily on parts sales and achieved an increase. Due to the sluggish economy, customer equipment was being repaired instead of replaced.

Gross profit decreased to \$83,931,000, or 17.5% of net sales in 2002 compared to \$90,924,000, or 20.0% of net sales in 2001. Under utilization of capacity, decreased sales volumes (except in the Aggregate Group and Asphalt Group), competitive price pressure, cost overruns on systems jobs that were completed in 2002 and writedown of used equipment resulted in a reduction in gross profits in 2002 compared to 2001 for all segments except the Aggregate Group.

In 2002 selling, general and administrative expenses increased to \$72,407,000, or 15.1% of net sales, from \$71,691,000, or 15.7% of net sales in 2001. Increased bank fees related to the Company's credit facility totaled \$750,000, while approximately \$963,000 of the increase in 2002 was due to the Con-Expo exhibition, a trade show that is held every three years. Reduced legal and other expenses in selling, general and administrative expenses partially offset these items.

Research and development expenses increased by \$183,000, or 2.5%, from \$7,448,000 in 2001 to \$7,631,000 in 2002. In spite of the slow economic conditions, the Company continued to enhance its current products with innovative features that benefit the customer. Product improvement and development continued in an efficient manner.

Interest expense for 2002 increased to \$10,474,000 from \$9,367,000, or 2.2% of net sales, from 2.1% of net sales for 2001. The increase related primarily to interest rate increases required by lenders as a result of covenant violations during the year.

For 2002, the Company had a net income tax benefit of \$2,511,000, or 35.2% of the pre-tax loss, compared to an income tax expense of \$1,481,000, or 41.2% of the 2001 pre-tax income. The permanent non-tax deductible items decreased the taxable loss in 2002 and increased the taxable loss in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The backlog at December 31, 2002 was \$60,698,000 compared to \$70,061,000 at December 31, 2001 (restated to reflect the addition of the Case New Holland trencher line). The backlog for Asphalt Group orders, Aggregate Group orders and Underground Group orders decreased while the backlog for the Mobile Group increased. While the backlog reflected a decline in sales, management believed that the decline was reflective of the then-current economic conditions in the United States and the then-current hesitancy of the Company's customers to commit to capital equipment purchases. The hesitancy was a result of uncertainty of our customers regarding economic conditions, concern relating to highway funding by the states, lack of sufficient TEA-21 federal funding, concern over possible war impacts and concern over the increase in the price of oil.

Asphalt Group: For 2002, this segment had sales of \$165,951,000 compared to \$142,674,000 for 2001, an increase of \$23,277,000, or 16.3%. Segment profit decreased \$1,895,000, or 37.7%, to \$3,127,000 for 2002 compared to a segment profit of \$5,022,000 for 2001. The primary reason for the increase in sales was the increase in domestic equipment sales, parts sales, used equipment and international sales of \$6,059,000. Competitive price pressure and under utilization of capacity significantly impacted gross profits and segment income. Negative gross margins on highly specialized and customized jobs, especially in the construction and installation phase of the jobs, impacted gross margins substantially.

Aggregate and Mining Group: For 2002, sales for this segment increased \$16,492,000, or 9.0%, to \$199,360,000 compared to \$182,868,000 for 2001. The increase in domestic sales of \$29,995,000 was primarily due to increased systems sales. Segment profit for 2002 increased \$447,000, or 6.0%, to \$7,908,000 from \$7,461,000 for 2001. Construction and manufacturing cost overruns on systems jobs, competitive price pressure, under utilization of capacity and product mix impacted gross profit and segment income. International sales declined \$13,503,000.

Mobile Asphalt Paving Group: For 2002, sales in this segment decreased \$6,582,000, or 8.4%, to \$71,906,000 from \$78,488,000 in 2001. Both domestic and international sales decreased from 2001. International sales during 2002 declined \$1,771,000 from 2001. Segment profit for 2002 decreased \$4,869,000, or 54.0%, to \$4,152,000 from \$9,021,000 for 2001. Product mix, under utilization of capacity and increased SG&A expenses impacted the 2002 profit. SG&A included increased selling, legal and exhibition expenses.

Underground Group: For 2002, sales in this segment decreased by \$9,200,000, or 18.9%, to \$39,455,000 from \$48,655,000 for 2001, primarily due to fewer small machine sales to the communications industry. International sales declined \$2,889,000. Segment losses for 2002 increased \$3,623,000, or 74.9%, to a loss of \$8,460,000 from a loss of \$4,837,000 during 2001, primarily from under utilization of capacity and expenses of approximately \$3,277,000 for moving the Trencor, Inc. operation from Texas to Tennessee, relocating the Case New Holland product line from Kansas to Tennessee and the associated start-up costs in a new location.

Liquidity and Capital Resources

Total short-term borrowings, including current maturities of long-term debt, were \$36,685,000 at December 31, 2003 compared to \$3,220,000 at December 31, 2002. As described below, \$28.0 million related to the revolver portion of the credit facility is required to be classified as short-term borrowings. In addition, quarterly payments due on the General Electric Capital Corporation ("GE Capital") term loan for 2004 are \$5,358,000, additional payments on the term loan for the Grapevine facility will start effective July 1, 2004 at the rate of \$500,000 per quarter and outstanding Industrial Development Revenue Bonds accounted for \$500,000 of the current maturities of long-term debt at December 31, 2003.

Net cash provided by operating activities for the twelve months ended December 31, 2003 was \$8,179,000 compared to \$33,622,000 for the twelve months ended December 31, 2002. The decrease in net cash provided by operating activities in 2003 is primarily due to net operating losses of \$29.0 million, along with a reduction of accounts payable reflecting lower purchasing activity and a reduction of other accrued liabilities due to the elimination of interest due to the payoff of the senior notes and payment for the initial receipt of purchased parts in connection with the start-up in Loudon, Tennessee. Offsetting the decreases were a \$6.9 million tax refund, a decrease in accounts receivables reflecting decreased sales and a reduction in inventory demonstrating the focus to sell used equipment and minimize inventory.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As discussed in Note 19 to the consolidated financial statements, the Company has restated the revolving portion of its credit facility for the second quarter ended June 30, 2003 and for the third quarter ended September 30, 2003 in accordance with Emerging Issues Task Force (EITF) Issue 95-22 *Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Arrangement*. The effect is to restate debt previously reported as long-term debt amounting to \$27.8 million and \$39.6 million in the second and third quarters of fiscal 2003, respectively, to current liabilities. In accordance with EITF 95-22, the Company has also classified the revolving credit facility as a current liability in its financial statements as of December 31, 2003. The restatement will not have an impact on the Company's total assets, shareholder's equity, liquidity or the results of operations for the impacted quarters or for the year ended December 31, 2003 and will not affect the financial covenants in the Company's credit facilities.

On August 26, 2003 the Company repaid to the Grapevine Industrial Development Corporation the outstanding bond liability dated April 1, 1994 in the amount of \$8,000,000 related to the Trencor, Inc. facility in Grapevine, Texas.

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd., has available a credit facility of approximately \$2,985,000 (ZAR 20,000,000) to finance short-term working capital needs, as well as to cover the short-term establishment of credit performance guarantees. As of December 2003 Osborn Engineered Products SA (Pty) Ltd. had no outstanding cash balance due under the credit facility but had approximately \$1,293,000 in performance and retention bonds guaranteed under the facility. The facility is secured by the Company's accounts receivable and retention balances. The available facility fluctuates monthly based upon fifty percent (50%) of the Company's accounts receivable, retention and cash balances at the end of the prior month.

On September 10, 2001 the Company and Astec Financial Services, Inc. entered into a note purchase agreement for \$80,000,000 of senior secured notes, placed with private institutions, due September 10, 2011 at a fixed rate of interest of 7.56%. As mentioned above, the Company refinanced its senior secured notes and credit facility in May 2003. In addition, as reported on Form 8-K on May 19, 2003, the Company issued to the former senior note holders subordinated convertible notes in the aggregate principal amount of \$10,000,000 to satisfy "make-whole" obligations under the senior notes by reason of the prepayment. On July 15, 2003, the Company exercised its right to redeem the subordinated convertible notes for \$4,154,000, which included accrued interest through that date. As a result of this redemption, the Company satisfied all of its obligations related to the early payoff and the "make-whole" provision of the senior note agreement.

Capital expenditures in 2004, budgeted at a maintenance level, are expected with some other items, such as machinery and equipment currently used at a leased facility and buyout of a machinery and equipment lease, to be approximately \$7,416,000. The Company expects to finance these expenditures using the available capacity under the Company's revolving credit facility and internally generated funds. Capital expenditures for 2003 were \$3,588,000 compared to \$19,274,000 in 2002. Capital expenditures for 2002 included the purchase of the Loudon, Tennessee facility, machinery and equipment for approximately \$12,800,000.

The Company believes that its current working capital, cash flows generated from future operations and available capacity remaining under its credit facility will be sufficient to meet the Company's working capital and capital expenditure requirements through December 31, 2004. The Company is attempting to sell its Grapevine, Texas facility. The future sale of the Grapevine facility should generate additional funds, the first \$6,250,000 of which will be used to reduce the term loan and the remainder will be used to provide working capital or reduce the revolver. There can be no assurances on when, or if, the Company will be successful in selling the Grapevine facility. During 2003 the Company did not depreciate the Grapevine, Texas facility held for sale. For the year ended December 31, 2003 the Company had depreciation expense savings of approximately \$283,000 related to assets held for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net cash provided by operating activities for the twelve months ended December 31, 2001 was \$1,452,000. The increase in net cash provided by operating activities for 2002 compared to 2001 was primarily due to decreases in inventory and trade receivables, along with increases in trade accounts payable and other accrued liabilities during 2002.

Cash flows from investing activities reflect the collection of finance receivables as a result of the Astec Financial Services, Inc. portfolio sale and the sale of leased equipment in connection with the wind down of Astec Financial Services, Inc.. Investing activities, primarily because of the disposition of Astec Financial Services, Inc. assets, provided cash of \$30,421,000 in 2003, but used cash of \$14,327,000 in 2002, resulting in a positive improvement of \$44,748,000. The Company does not expect any cash provided by investing activities during 2004 unless the Company is successful in selling the Grapevine facility or other unused assets.

Long-term debt, less current maturities, decreased to \$38,696,000 at December 31, 2003 from \$130,645,000 at December 31, 2002. At December 31, 2003, \$28,464,000 was long-term under the GE Capital term loan, \$10,200,000 was outstanding under the long-term principal portion of Industrial Revenue Bonds, and \$32,000 was outstanding under other notes.

On September 10, 2001 the Company entered into an unsecured \$125,000,000 revolving loan agreement with a syndicate of banks. At December 31, 2002 the Company was utilizing \$31,902,000 of the \$58,200,000 amount then available under the credit facility for borrowing and an additional \$21,300,000 to support outstanding letters of credit (primarily for industrial revenue bonds). At December 31, 2002 the Company also had \$80,000,000 of senior notes held by private institutions.

On May 14, 2003 the Company refinanced its revolving credit facility and senior note agreement with new credit facilities of up to \$150,000,000 through GE Capital secured by the Company's assets. As part of the refinancing agreement, the Company entered into a term loan in the amount of \$37,500,000 with an interest rate of one percent (1%) above the Wall Street Journal prime rate. At a later date, the Company may elect an interest rate at a percentage above the LIBOR. The term loan requires quarterly principal payments of \$1,339,286 on the first day of each quarter beginning July 1, 2003, with the final installment of the principal balance due on May 14, 2007.

The credit agreement also included a revolving credit facility of up to \$112,500,000, of which available credit under the facility is based on a percentage of the Company's eligible accounts receivable and inventories. Availability under the revolving facility is adjusted monthly and interest is due in arrears. Principal covenants under the loan agreement include a fixed charge coverage ratio covenant and a limitation on capital expenditures.

On September 30, 2003, related to the syndication of the loan by GE Capital, the Company entered into the First Amendment to the Credit Agreement that reduced the availability under the credit facility from \$112,500,000 to \$87,500,000, which has a \$5,000,000 limit for contingent liabilities and guaranteed indebtedness of the Company. The Company requested the reduction in the revolving credit facility to reduce the fees paid for the daily available but unused portion of the revolving facility. In addition, the amendment increased the interest rate to one and one-half percent (1.5%) above prime or, at the election of the Company, to three and one-half percent (3.5%) above LIBOR. This debt modification resulted in a write-off of debt issuance costs of \$545,000.

On October 29, 2003, related to the syndication of the loan by GE Capital, the Company amended its credit agreement to: 1) raise the threshold of required lender approval to at least eighty-one percent (81%) for certain material amendments to the credit agreement; and 2) require any overadvances (over the borrowing base formula contained therein) be repaid within sixty (60) days.

At December 31, 2003 the Company was not in compliance with the fixed charge coverage ratio covenant of its credit facility. The violation was waived as part of an amendment to the credit agreement dated March 3, 2004, which amended the fixed charge coverage ratio for the next three quarters of 2004. At December 31, 2003 the Company was utilizing \$27,997,000 of the amount available under the revolving credit facilities, \$34,821,000 as term loans under the credit facilities and an additional \$16,297,000 to support outstanding letters of credit (primarily for industrial revenue bonds).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Application of these principles requires the Company to make estimates and judgments that affect the amounts as reported in the consolidated financial statements. Accounting policies that are critical to aid in understanding and evaluating the results of operations and financial position of the Company include the following:

Inventory Valuation: Inventories are valued at the lower of cost or market. The most significant component of the Company's inventories is steel. Open market prices, which are subject to volatility, determine the cost of steel for the Company. During periods when open market prices decline, the Company may need to provide an allowance to reduce the carrying value of the inventory. In addition, certain items in inventory may be considered obsolete, and as such, the Company may establish an allowance to reduce the carrying value of these items to their net realizable value. The amounts in these inventory allowances are determined by the Company based on certain estimates, assumptions and judgments made from the information available at that time. Historically, inventory reserves have been sufficient to provide for proper valuation of the Company's inventory. The Company does not believe it is reasonably likely that the allowance level will materially change in the future.

Allowance for Doubtful Accounts: The Company evaluates its ability to collect accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific reserve for bad debts is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additionally, a general percentage of past due receivables is reserved, based on the Company's past experience of collectibility. If circumstances change (i.e., higher than expected defaults or an unexpected materially adverse change in a major customer's ability to meet its financial obligations), estimates of the recoverability of amounts due could be reduced by a material amount. The Company's level of reserves for its customer accounts receivable fluctuates depending upon the factors discussed. Historically, the allowance for doubtful accounts has been sufficient to provide for write-offs of uncollectible amounts. The allowance for doubtful accounts decreased to \$1,752,000 at December 31, 2003 from \$2,775,000 at December 31, 2002, due primarily to the decreased total of finance receivables held by the former finance subsidiary at December 31, 2003 compared to December 31, 2002. The Company does not believe it is reasonably likely that the allowance level will materially change in the future.

Litigation Contingencies: As a normal course of business in the industry, the Company is named as a defendant in a number of legal proceedings associated with product liability matters. The Company does not believe it is party to any legal proceedings that will have a materially adverse effect on the consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions related to these proceedings.

As discussed in Note 12 of the consolidated financial statements, as of December 31, 2003 the Company has accrued its best estimate of the probable cost for the resolution of these claims. This estimate has been developed in consultation with outside counsel that is handling the defense in these matters and is based upon a combination of litigation and settlement strategies. Certain litigation is being addressed before juries in states where past jury awards have been significant. To the extent additional information arises or strategies change, it is possible that the Company's best estimate of the probable liability in these matters may change.

New Accounting Standards

The Company's two post-retirement medical and life insurance plans provide prescription drug benefits that may be affected by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), signed into law in December 2003. In accordance with FASB Staff Position FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the effects of the Act on the Company's medical plans have not been included in the measurement of the accumulated post-retirement benefit obligation or net periodic post-retirement benefit cost for 2003. Specific authoritative guidance from the FASB on the accounting for the federal subsidy is pending and that guidance, when issued, may require the Company to restate previously reported information and may require the Company to amend its plans to benefit from the Act.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Market Risk and Risk Management Policies

The Company is exposed to changes in interest rates, primarily from its revolving credit agreements and industrial revenue bonds. Until May 2003, the Company used interest rate derivative instruments to manage exposure to interest rate changes for a portion of its debt arrangements. At December 31, 2003 the Company did not have interest rate derivatives in place. The current fluctuations in interest are subject to normal market fluctuations of interest. A hypothetical 100 basis point adverse move (increase) in interest rates would have adversely affected interest expense by approximately \$735,000 for the year ended December 31, 2003. The Company's earnings and cash flows are also subject to fluctuations due to changes in foreign currency exchange rates; however, these fluctuations would not be significant to the Company's consolidated operations.

The Company is subject to foreign exchange risks arising from its foreign operations in its local currency. Foreign operations represented 7.6% and 5.5% of total assets at December 31, 2003 and 2002, respectively, and 9.0% and 7.0% of total revenue for 2003 and 2002, respectively. Assuming foreign exchange rates decreased ten percent (10%) from the December 31, 2003 and 2002 levels, the December 31, 2003 and 2002 shareholders' equity would not be materially affected.

Aggregate Contractual Obligations

The following table discloses aggregate information about the Company's contractual obligations and the period in which payments are due as of December 31, 2003:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Revolving credit loan	\$ 27,996,898	\$ 27,996,898			
Long-term debt obligations	45,521,429	6,857,143	\$ 11,714,286	\$ 17,750,000	\$ 9,200,000
Operating lease obligations	3,965,436	2,459,647	1,263,066	188,515	54,208
Purchase obligations	54,987	54,987			
Other long-term notes reflected on the registrant's balance sheet under GAAP	1,863,283	1,831,378	21,270	10,635	
Total	\$ 79,402,033	\$ 39,200,053	\$ 12,998,622	\$ 17,949,150	\$ 9,254,208

Contingencies

Management has reviewed all claims and lawsuits and, upon the advice of counsel, has made adequate provision for any estimable losses. However, the Company is unable to predict the ultimate outcome of the outstanding claims and lawsuits.

Certain customers have financed purchases of the Company's products through arrangements in which the Company is contingently liable for customer debt and residual value guarantees aggregating \$21,125,000 and \$14,749,000 at December 31, 2003 and 2002, respectively. These obligations average three years in duration and have minimal risk. Astec Financial Services, Inc. sold installment loans, finance and operating leases with recourse.

The Company is contingently liable under letters of credit of approximately \$16,297,000 primarily related to Industrial Revenue Bonds.

Off-balance Sheet Arrangements

As of December 31, 2003 the Company does not have any off-balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K.

Environmental Matters

Based on information available, management is not aware of the need for environmental reserves.

CONSOLIDATED BALANCE SHEETS

December 31,

Assets	2003	2002
Current assets:		
Cash and cash equivalents	\$ 9,734,537	\$ 30,341,171
Trade receivables less allowance for doubtful accounts of \$1,752,000 in 2003 and \$2,775,000 in 2002	44,749,274	48,964,719
Finance receivables	286,795	17,915,726
Notes and other receivables	982,060	9,568,052
Inventories	110,233,695	120,237,521
Prepaid expenses	9,236,731	6,063,303
Refundable income taxes		6,839,098
Deferred tax asset	8,904,801	9,721,492
Other current assets	24,531	224,140
Total current assets	184,152,424	249,875,222
Property and equipment, net	105,181,753	125,799,279
Other assets:		
Goodwill	20,887,084	36,093,277
Finance receivables	581,869	1,767,133
Notes receivable	39,405	201,968
Assets held for sale	5,751,375	
Other	4,362,555	3,242,248
Total other assets	31,622,288	41,304,626
Total assets	\$ 320,956,465	\$ 416,979,127
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit loan	\$ 27,996,898	
Current maturities of long-term debt	8,688,521	\$ 3,219,725
Accounts payable	28,955,842	33,679,806
Customer deposits	9,910,443	6,338,533
Accrued product warranty	3,612,930	3,646,045
Accrued payroll and related liabilities	2,124,494	2,464,217
Other accrued liabilities	21,862,193	27,303,053
Total current liabilities	103,151,321	76,651,379
Long-term debt, less current maturities	38,696,191	130,644,744
Deferred tax liability	2,895,336	9,220,675
Deferred retirement costs	5,865,368	5,632,541
Other	2,341,362	1,722,361
Total liabilities	152,949,578	223,871,700
Minority interest	489,664	460,215
Commitments and contingencies Notes 7, 8, 12 and 18		
Shareholders' equity:		
Preferred stock - authorized 4,000,000 shares of \$1.00 par value; none issued		
Common stock - authorized 40,000,000 shares of \$.20 par value; issued and outstanding - 19,738,046 in 2003 and 19,677,440 in 2002	3,947,609	3,935,488
Additional paid-in capital	52,988,951	52,547,239
Accumulated other comprehensive income	1,113,693	(2,896,680)
Company shares held by SERP, at cost	(1,459,000)	(785,000)
Retained earnings	110,925,970	139,846,165
Total shareholders' equity	167,517,223	192,647,212
Total liabilities and shareholders' equity	\$ 320,956,465	\$ 416,979,127

See Notes to Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Forward-Looking Statements

This annual report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements contained anywhere in this Annual Report that are not limited to historical information are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding:

- execution of the Company's growth and operation strategy;
- compliance with covenants in the Company's credit facilities;
- liquidity and capital expenditures;
- sufficiency of working capital, cash flows and available capacity under the Company's credit facilities;
- government funding and growth of highway construction and commercial projects;
- taxes or usage fees;
- financing plans;
- industry trends;
- pricing and availability of oil; and
- condition of the economy.

These forward-looking statements are based largely on management's expectations which are subject to a number of known and unknown risks, uncertainties and other factors discussed in this report and in documents filed by the Company with the Securities and Exchange Commission, which may cause actual results, financial or otherwise, to be materially different from those anticipated, expressed or implied by the forward-looking statements. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements to reflect future events or circumstances. You can identify these statements by forward-looking words such as "expect," "believe," "goal," "plan," "intend," "estimate," "may," "will" and similar expressions.

In addition to the risks and uncertainties identified elsewhere herein and in documents filed by the Company with the Securities and Exchange Commission, the following factors should be carefully considered when evaluating the Company's business and future prospects: decreases or delays in highway funding; rising interest rates; changes in oil prices; changes in steel prices; downturns in the general economy; unexpected capital expenditures and decreases in liquidity; the timing of large contracts; production capacity; general business conditions in the industry; non-compliance with covenants in the Company's credit facilities; demand for the Company's products; and those other factors listed from time to time in the Company's reports filed with the Securities and Exchange Commission. Certain of the risks, uncertainties and other factors discussed or noted above are more fully described in the section entitled "Business - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2003	2002	2001
Cash Flows from Operating Activities			
Net income (loss)	\$(28,964,005)	\$(4,705,926)	\$ 1,992,422
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,126,232	15,211,581	17,045,572
Provision for doubtful accounts	312,021	1,168,447	1,637,639
Provision for inventory reserves	5,304,370	3,104,411	990,904
Provision for warranty	7,599,745	8,840,731	3,778,458
Deferred tax provision (benefit)	(5,508,648)	(610,269)	(1,169,090)
(Gain) loss on disposition of fixed assets	(1,034,489)	(162,721)	191,122
Gain on sale of equipment on operating lease	(534,325)	(708,046)	(626,289)
Gain on sale of finance receivables	(18,000)	(342,063)	(408,840)
Equity in loss of joint venture			241,922
Goodwill impairment	16,260,974		
Minority interest in losses (earnings) of subsidiary	136,967	80,403	(98,578)
(Increase) decrease in:			
Receivables	6,575,947	3,244,069	677,165
Inventories	6,291,914	6,527,167	(4,446,613)
Prepaid expenses	(2,752,027)	(1,378,562)	(879,420)
Other assets	(1,347,012)	(2,316,920)	(991,190)
Increase (decrease) in:			
Accounts payable	(5,705,024)	6,536,815	(11,046,880)
Customer deposits	3,515,342	(1,886,474)	2,191,155
Accrued product warranty	(7,744,036)	(8,535,986)	(4,855,359)
Refundable income taxes	6,839,098		
Income taxes payable	2,292,637	597,519	(1,339,156)
Loss reserves of captive insurance company	2,014,416	2,275,444	749,312
Other accrued liabilities	(8,763,779)	6,592,169	(2,101,412)
Foreign currency transaction (gain) loss	280,578	90,651	(80,925)
Net cash provided by operating activities	8,178,896	33,622,440	1,451,919
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment	1,660,676	1,238,570	236,286
Expenditures for property and equipment	(3,588,297)	(19,273,932)	(8,057,422)
Proceeds from sale of equipment on operating lease	6,611,539	16,634,694	25,141,768
Expenditures for equipment on operating lease		(14,704,868)	(28,001,408)
Additions to finance receivables	(1,043,412)	(40,741,257)	(46,908,713)
Collections of finance receivables	18,190,171	20,413,550	26,729,468
Proceeds from sale of finance receivables	1,585,484	29,330,175	18,996,855
Additions to notes receivable	(300,800)	(7,228,110)	(692,760)
Repayments on notes receivable	7,305,714	4,554	460,885
Net cash provided (used) by investing activities	30,421,075	(14,326,624)	(12,095,041)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,

	2003	2002	2001
Net sales	\$ 426,613,037	\$ 480,589,793	\$ 455,839,164
Cost of sales	355,749,200	396,659,249	364,915,606
Gross profit	70,863,837	83,930,544	90,923,558
Selling, general and administrative expenses	69,463,415	72,407,228	71,690,984
Goodwill impairment	16,260,975		
Relocation and start-up expenses		3,276,559	
Research and development expenses	8,308,014	7,630,975	7,448,332
Income (loss) from operations	(23,168,567)	615,782	11,784,242
Other income (expense)			
Interest expense	(7,289,055)	(10,474,350)	(9,367,054)
Senior note termination expense	(3,836,975)		
Interest income	750,618	1,632,780	1,585,039
Amortization of goodwill and other intangible assets	(452,572)	(141,139)	(2,202,677)
Other income - net	579,543	1,241,946	2,039,420
Equity in loss of joint venture			(241,922)
Income (loss) before income taxes	(33,417,008)	(7,124,981)	3,597,048
Income taxes	(4,486,416)	(2,511,266)	1,480,748
Income (loss) before minority interest	(28,930,592)	(4,613,715)	2,116,300
Minority interest	33,413	92,211	123,878
Net income (loss)	\$ (28,964,005)	\$ (4,705,926)	\$ 1,992,422
Earnings (Loss) per Common Share			
Net income (loss):			
Basic	\$ (1.47)	\$ (0.24)	\$ 0.10
Diluted	(1.47)	(0.24)	0.10
Weighted average number of common shares outstanding:			
Basic	19,671,697	19,638,103	19,441,818
Diluted	19,671,697	19,638,103	19,753,226

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2003, 2002 and 2001

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Company Shares Held by SERP	Total Shareholders' Equity
Balance							
December 31, 2000	19,319,746	\$3,863,949	\$48,440,594	\$142,528,695	\$ (210,298)	\$ --	\$194,622,940
Net income				1,992,422			1,992,422
Other comprehensive income (loss):							
Foreign currency translation adjustments					(2,126,103)		(2,126,103)
Unrealized loss on cash flow hedge, net of income taxes of \$269,549					(439,730)		(439,730)
Comprehensive loss							(573,411)
Exercise of stock options, including tax benefit	149,758	29,951	1,769,817				1,799,768
Stock issued in business combination	133,675	26,735	1,470,616				1,497,351
Balance							
December 31, 2001	19,603,179	3,920,635	51,681,027	144,521,117	(2,776,131)		197,346,648
Net loss				(4,705,926)			(4,705,926)
Other comprehensive income (loss):							
Minimum pension liability adjustment, net of income taxes of \$809,570					(1,320,879)		(1,320,879)
Foreign currency translation adjustments					1,348,045		1,361,961
Unrealized loss on cash flow hedge, net of income taxes of \$99,064					(147,715)		(161,631)
Comprehensive loss							(4,826,475)
Exercise of stock options, including tax benefit	74,261	14,853	866,212				881,065
Change in minority interest ownership				30,974			30,974
Cost of Company stock held by SERP						(785,000)	(785,000)
Balance							
December 31, 2002	19,677,440	3,935,488	52,547,239	139,846,165	(2,896,680)	(785,000)	192,647,212
Net loss				(28,964,005)			(28,964,005)
Other comprehensive income (loss):							
Minimum pension liability adjustment, net of income taxes of \$106,784					174,226		174,226
Foreign currency translation adjustments					3,617,015		3,617,015
Unrealized loss on cash flow hedge, net of income taxes of \$134,307					219,132		219,132
Comprehensive loss							(24,953,632)
Exercise of stock options, including tax benefit	60,606	12,121	441,712				453,833
Change in minority interest ownership				43,810			43,810
Purchase of Company stock held by SERP						(674,000)	(674,000)
Balance							
December 31, 2003	19,738,046	\$3,947,609	\$52,988,951	\$110,925,970	\$1,113,693	\$(1,459,000)	\$167,517,223

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2003	2002	2001
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	\$ 382,014	\$ 698,540	\$ 748,153
Net borrowings (repayments) under revolving credit loans	(3,905,306)	5,314,410	(70,353,821)
Cash paid for retirement of stock	(70,776)	(87,888)	
Principal repayments of industrial bonds, loans and notes payable	(95,113,634)	(6,769,101)	(4,520,082)
Purchase of company shares by Supplemental Executive Retirement Plan	(674,000)	(785,000)	
Proceeds from debt and notes payable	40,122,943	5,655,642	84,632,406
Net cash provided (used) by financing activities	(59,258,759)	4,026,603	10,506,656
Effect of exchange rates on cash	52,154	348,574	(246,684)
Increase (decrease) in cash and cash equivalents	(20,606,634)	23,670,993	(383,150)
Cash and cash equivalents, beginning of period	30,341,171	6,670,178	7,053,328
Cash and cash equivalents, end of period	\$ 9,734,537	\$ 30,341,171	\$ 6,670,178
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 9,213,232	\$ 10,235,731	\$ 7,823,874
Income taxes (net of refunds)	\$ (6,526,586)	\$ (2,955,356)	\$ 4,882,833
Tax benefits related to stock options:			
Refundable income taxes		\$ 105,809	\$ 1,051,615
Additional paid-in capital	\$ (71,820)	(105,809)	(1,051,615)
Income tax payable	71,820		
Non-cash business combination:			
Investment in subsidiary			\$ 144,600
Accrued liability			1,352,751
Common stock			(26,735)
Additional paid-in capital			(1,470,616)

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-lived Assets - In the event that facts and circumstances indicate that the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the carrying amount for each asset to determine if a writedown is required. If this review indicates that the assets will not be recoverable, the carrying value of the Company's assets would be reduced to their estimated market value.

Revenue Recognition - A portion of the Company's equipment sales represents equipment produced in the Company's plants under short-term contracts for a specific customer project or equipment designed to meet a customer's specific requirements. Equipment revenues are recognized in compliance with the terms and conditions of each contract, which is ordinarily at the time the equipment is shipped. Certain contracts include terms and conditions through which the Company recognizes revenues upon completion of equipment production, which is subsequently stored at the Company's plant at the customer's request. Revenue is recorded on such contracts upon the customer's assumption of title and all risks of ownership. The Company has a limited number of sales accounted for as multiple-element arrangements, whereby related revenue on each product is recognized when it is shipped, and the related service revenue is recognized when the service is performed.

Advertising Expense - The cost of advertising, other than direct response advertising, is expensed as incurred. The Company incurred approximately \$2,088,000, \$2,700,000 and \$4,447,000 in advertising costs during 2003, 2002 and 2001, respectively.

Direct response advertising is capitalized and amortized over its expected period of future benefits. The Company participates in a week-long industry trade show that takes place once every three years. The Company maintains customer and potential customer attendance records that are used to track the future sales revenues as a result of their advertising and customer relation efforts at the show. The costs related to the trade exhibits and show attendance are capitalized, then amortized over the period in which revenue related to the trade show is generated, which is twenty-four months. Sixty percent (60%) of costs are expensed during the first twelve months following the show and the remaining forty percent (40%) is expensed over the succeeding twelve-month period based on historical revenue patterns. The amortization method is supported by the attendance and revenue related records maintained by the Company. Prepaid trade show expenses totaled \$293,000 and \$1,472,000 as of December 31, 2003 and 2002. Amortized advertising expenses related to presentation and attendance at trade shows were \$1,418,000, \$963,000 and \$257,000 for the years ended December 31, 2003, 2002 and 2001.

Stock-based Compensation - As permitted under Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, the Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and accordingly, recognizes no compensation expense for the stock option grants as long as the exercise price is equal to or more than the fair value of the shares at the date of the grant. Because all option grants for 2003, 2002 and 2001 were at or above the fair value of the shares, no stock-based employee compensation cost is reflected in net income (loss) for those years.

During 2002 the Financial Accounting Standards Board issued SFAS No. 148 *Accounting for Stock-based Compensation - Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects on the reporting of net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS No. 148 amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure about these effects in interim financial information. Although Statement 148 does not amend Statement 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of Statement 148 are applicable to all companies with stock-based compensation, regardless of whether they account for that compensation using the fair value method of Statement 123 or the intrinsic value method of APB No. 25.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2003, 2002 and 2001

1. Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of Astec Industries, Inc. and its domestic and foreign subsidiaries. The Company's significant wholly-owned and consolidated subsidiaries at December 31, 2003 are as follows:

American Augers, Inc.	Heatec, Inc.
Astec, Inc.	Johnson Crushers International, Inc.
Astec Financial Services, Inc.	Kolberg-Pioneer, Inc.
Astec Insurance Company	Osborn Engineered Products SA (Pty) Ltd. (91% owned)
Astec Systems, Inc.	Production Engineered Products, Inc.
Breaker Technology, Inc.	Roadtec, Inc.
Breaker Technology Ltd.	Superior Industries of Morris, Inc.
Carlson Paving Products, Inc.	Telsmith, Inc.
CEI Enterprises, Inc.	Trencor, Inc.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Until December 31, 2001 the Company's investment in a fifty percent (50%) owned joint venture, Pavement Technology, Inc., was accounted for on an equity basis. On December 31, 2001 the Company acquired the remaining fifty percent (50%) interest in Pavement Technology, Inc. and merged it into Astec, Inc.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents - The Company considers all highly liquid instruments purchased with a maturity of less than three months to be cash equivalents.

Concentration of Credit Risk - The Company sells products to a wide variety of customers. Accounts receivable and finance receivables are carried at their outstanding principal amounts, less an allowance for doubtful accounts. The Company extends credit to its customers based on an evaluation of the customer's financial condition generally without requiring collateral. Credit risk is driven by conditions within the economy and the industry and is principally dependent on each customer's financial condition. To minimize credit risk, the Company monitors credit levels and financial conditions of customers on a continuing basis. The Company maintains an allowance for doubtful accounts at a level which management believes is sufficient to cover potential credit losses. As of December 31, 2003, concentrations of credit risk with respect to receivables are limited due to the wide variety of customers.

Foreign Currency Translation - Subsidiaries located in Canada and South Africa operate primarily using local functional currency. Accordingly, assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting adjustments are presented as a separate component of accumulated other comprehensive income.

Inventories - Inventories (excluding used equipment) are stated at the lower of first-in, first-out cost or market. Used equipment inventories are stated at the lower of specific unit cost or market.

Property and Equipment - Property and equipment is stated at cost. Depreciation is calculated for financial reporting purposes using the straight-line method based on the estimated useful lives of the assets as follows: buildings (40 years) and equipment (3 to 10 years). Both accelerated and straight-line methods are used for tax reporting purposes.

Goodwill - Goodwill represents the excess of cost over the fair value of net identifiable assets acquired. Goodwill amounts were amortized using the straight-line method over 20 years through 2001. Effective January 1, 2002, goodwill is no longer being amortized in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142) *Goodwill and Other Intangible Assets*, but will be tested for impairment at least annually. Accumulated goodwill amortization was approximately \$2,464,000 at December 31, 2003 and approximately \$7,258,000 at December 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivatives and Hedging Activities - In June 1998 the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which was amended by SFAS Nos. 137 and 138. SFAS No. 133, as amended, requires the Company to recognize all derivatives in the balance sheet at fair value. Derivatives that are not hedged must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through income or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized in income.

Shipping and Handling Fees and Cost - The Company records revenues earned for shipping and handling as net sales, while the cost of shipping and handling is classified as cost of goods sold.

Reclassifications - Certain amounts for 2002 and 2001 have been reclassified to conform with the 2003 presentation.

2. Business Combinations

The Company's acquisitions have been accounted for using the purchase method of accounting, and accordingly, the operating results of the acquired businesses are included in the Company's consolidated financial statements from the respective acquisition dates. The assets acquired and liabilities assumed were recorded at estimated fair value. That portion of the purchase price in excess of the fair market value of the net identifiable assets acquired is recorded as goodwill.

On July 1, 2002 the Company announced it had entered into a strategic alliance with Case Construction Equipment for the manufacture, marketing and sale of trenchers, horizontal directional drills ("HDDs") and related equipment for the utility construction market. Under an original equipment manufacturer agreement ("OEM"), the Company's Underground Group produces the current line of eight Case trenchers, three HDDs, HDD fluid-mixing systems and downhole tools, and also dedicates selected models of Trencher trenchers and American Augers HDDs, which are distributed through the Case dealer networks. As part of the agreement, the Company also has access to Case's worldwide dealer networks and access to Case's purchasing power for these product lines through its supply base. As part of the agreement, the Company acquired certain intellectual property, tooling and other product-specific manufacturing assets from Case.

A summary of the net assets acquired is as follows:

	Case Product Line
Current assets	\$ 725,393
Property, plant and equipment	350,000
Intangibles	2,000,000
Net assets acquired	\$ 3,075,393

On December 31, 2001 the Company acquired the remaining fifty percent (50%) interest in its joint venture investment, Pavement Technology, Inc., for 10,000 shares of the Company's stock valued at approximately \$143,000.

3. Inventories

Inventories consisted of the following:

	December 31,	
	2003	2002
Raw materials and parts	\$ 49,276,911	\$ 47,937,679
Work-in-process	26,112,548	20,606,056
Finished goods	18,086,370	27,765,774
Used equipment	16,757,866	23,928,012
Total	\$ 110,233,695	\$ 120,237,521

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following pro forma summary presents the Company's net income (loss) and per share earnings (loss) which would have been reported had the Company determined stock compensation cost using the fair value method of accounting set forth under SFAS No. 123. The pro forma impact on net income (loss) shown below may not be representative of future effects.

	Year Ended December 31,		
	2003	2002	2001
Net income (loss), as reported	\$ (28,964,005)	\$ (4,705,926)	\$ 1,992,422
Stock compensation expense under SFAS No. 123, net of taxes	(40,138)	(1,886,735)	(2,611,266)
Adjusted net (loss)	\$ (29,004,143)	\$ (6,592,661)	\$ (618,844)
Basic earnings (loss) per share, as reported	\$ (1.47)	\$ (0.24)	\$ 0.10
Stock compensation expense under SFAS No. 123, net of taxes	--	(0.10)	(0.13)
Adjusted basic (loss) per share	\$ (1.47)	\$ (0.34)	\$ (0.03)
Diluted earnings (loss) per share, as reported	\$ (1.47)	\$ (0.24)	\$ 0.10
Stock compensation expense under SFAS No. 123, net of taxes	--	(0.10)	(0.13)
Adjusted diluted (loss) per share	\$ (1.47)	\$ (0.34)	\$ (0.03)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003 Grants	2002 Grants	2001 Grants
Expected life	8 years	4 years	4 years
Expected volatility	0.478	0.462	0.460
Risk-free interest rate	2.94%	2.03%	3.93%
Dividend yield	--	--	--

Earnings Per Share - Basic and diluted earnings per share are calculated in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share is based on the weighted average number of common shares outstanding and diluted earnings per share includes potential dilutive effects of options, warrants and convertible securities.

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

	Year Ended December 31,		
	2003	2002	2001
Numerator:			
Net income (loss)	\$ (28,964,005)	\$ (4,705,926)	\$ 1,992,422
Denominator:			
Denominator for basic earnings per share	19,671,697	19,638,103	19,441,818
Effect of dilutive securities:			
Employee stock options	--	--	311,408
Denominator for diluted earnings per share	19,671,697	19,638,103	19,753,226
Earnings per common share:			
Basic	\$ (1.47)	\$ (0.24)	\$ 0.10
Diluted	\$ (1.47)	\$ (0.24)	\$ 0.10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2003 and December 31, 2002 are as follows:

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	Total
Balance December 31, 2001	\$ 2,086,304	\$18,299,177	\$ 3,995,023	\$11,734,479	\$36,114,983
Purchase price adjustments		16,926	(38,632)		(21,706)
Balance December 31, 2002	2,086,304	18,316,103	3,956,391	11,734,479	36,093,277
Goodwill impairment	(929,486)	(1,287,010)	(2,310,000)	(11,734,479)	(16,260,975)
Foreign currency translation		1,054,782			1,054,782
Balance December 31, 2003	\$ 1,156,818	\$18,083,875	\$ 1,646,391	\$ --	\$20,887,084

5. Other Intangible Assets

SFAS No. 144 requires long-lived assets be reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The Company does not routinely perform tests of recoverability, but as the result of impaired goodwill as of December 31, 2003, other long-lived assets of the company were reviewed for possible impairment. SFAS No. 144 requires recognition of impairment loss for long-lived assets "held and used" if the sum of the estimated future undiscounted cash flows used to test for recoverability is less than the carrying value. For the reporting units with goodwill impairment, the undiscounted cash flows of these units were compared to the net book value of the fixed and other intangible assets as applicable. The review of long-lived assets at December 31, 2003 did not indicate asset impairment.

Amortization expense for other intangible assets was \$277,796, \$110,236 and \$0, for 2003, 2002 and 2001, respectively. Other intangible assets consisted of the following at December 31, 2003:

	Gross Carrying Value	Accumulated Amortization Dec. 31, 2002	Accumulated Amortization Dec. 31, 2003	Net Carrying Value Dec. 31, 2003	Weighted Avg. Amortization Period
Dealer network and customer base	\$ 820,000	\$ (45,197)	\$ (122,677)	\$ 697,323	10 years
Drawings	820,000	(45,197)	(122,677)	697,323	10 years
Trademarks	336,000	(18,520)	(124,347)	211,653	3 years
Patents	24,000	(1,322)	(18,331)	5,669	2 years
Total	\$ 2,000,000	\$ (110,236)	\$ (388,032)	\$ 1,611,968	9 years

Approximate amortization expense for the next five years is expected as follows:

2004	\$266,000	2007	\$155,000
2005	261,000	2008	155,000
2006	155,000		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets acquired in business combinations. The Company adopted SFAS No. 142 in January 2002 and performed an initial valuation of goodwill that did not indicate impairment. SFAS No. 142 provides that goodwill and certain other intangible assets no longer will be amortized for fiscal years beginning after December 15, 2001 but will be tested for impairment at least annually. The Company measures goodwill impairment by comparing the carrying value of its reporting units, including goodwill, with the fair value of the reporting unit measured by determining the present value of future cash flows.

In accordance with the provisions of SFAS No. 142, the Company performed valuation procedures as of December 31, 2003. To complete the first step of valuation, the Company used discounted cash flows ("DCF") to apply the income approach to indicate potential impairment of goodwill. The DCF method is based on the premise that the value of the reporting unit is the present value of the future economic income or cash flows to be derived by the reporting unit. This method analyzes discretely the three factors which directly determine value: 1) the amount of cash expected to be generated; 2) the timing of the cash flow; and 3) the riskiness of the projected cash flows. The DCF was based on a debt-free cash flow stream and margin and growth assumptions were consistent with the reporting units' internal planning. If during step-one valuation procedures, the carrying value of shareholders equity was in excess of fair value, goodwill impairment was indicated and step-two procedures were completed.

Step-two testing required an estimate of the fair value of the reporting units' goodwill. To estimate the fair value of goodwill, the fair value of the reporting units' assets and liabilities is estimated, including identification and valuation of intangible assets that meet the criteria of SFAS No. 141. The other intangible assets considered include customer relationships, patent and trademarks and non-compete agreements. The fair value of the reporting units' goodwill is compared to its carrying value to determine the impairment of goodwill.

The valuation indicated impairment of goodwill in five reporting units totaling approximately \$16,261,000. The Company believes various factors led to the goodwill impairment determined as of December 31, 2003. The economic downturn and political uncertainty, both of which have increased competitive pricing pressure and contributed to under utilization of capacity during 2003, negatively impacted the expected revenue growth and expected cash flows in each of the Company's operating segments. In addition, the learning curve and costs related to the startup of the Case product line also negatively impacted expected cash flows of the Underground Group. Goodwill impairment expense of this amount is included in loss from operations for the year ended December 31, 2003. At December 31, 2003 the Company had unamortized goodwill in the amount of \$20,887,084. Amortization expense related to goodwill was \$2,154,000 for the year ended December 31, 2001.

The following table presents the Company's net income assuming goodwill had not been amortized during the twelve months ended December 31, 2001.

	Year Ended December 31,		
	2003	2002	2001
Net income (loss), as reported	\$ (28,964,005)	\$ (4,705,926)	\$ 1,992,442
Add goodwill amortization, net of taxes			1,335,000
Adjusted net income (loss)	\$ (28,964,005)	\$ (4,705,926)	\$ 3,327,442
Basic earnings (loss) per share, as reported	\$ (1.47)	\$ (0.24)	\$ 0.10
Add goodwill amortization, net of taxes			0.07
Adjusted basic earnings (loss) per share	\$ (1.47)	\$ (0.24)	\$ 0.17
Diluted earnings (loss) per share, as reported	\$ (1.47)	\$ (0.24)	\$ 0.10
Add goodwill amortization, net of taxes			0.07
Adjusted diluted earnings (loss) per share	\$ (1.47)	\$ (0.24)	\$ 0.17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

Debt consisted of the following:

	December 31,	
	2003	2002
Revolving credit loan of \$87,500,000 at December 31, 2003 at interest rates from 4.67% to 5.50% at December 31, 2003	\$ 27,996,898	
Revolving credit loan of \$58,200,000 at December 31, 2002, paid in 2003		\$ 31,902,204
Term loan due May 14, 2007 payable in quarterly installments of \$1,339,286 beginning July 1, 2003 at a rate of 5.5% at December 31, 2003	34,821,429	
\$80,000,000 Senior Secured Note due September 10, 2011, paid in 2003		80,000,000
Industrial Development Revenue Bonds payable in annual installments of \$500,000 through 2006 at weekly negotiated interest rates	1,500,000	2,000,000
Industrial Development Revenue Bonds due in 2019, paid in 2003		8,000,000
Industrial Development Revenue Bonds due in 2028 at weekly negotiated interest rates	9,200,000	9,200,000
Other current notes payable	1,863,283	2,762,265
Total debt	75,381,610	133,864,469
Revolving credit loan	27,996,898	--
Less current maturities	8,688,521	3,219,725
Total debt less current maturities	\$ 38,696,191	\$ 130,644,744

On September 10, 2001 the Company and Astec Financial Services, Inc. entered into a \$125,000,000 revolving credit facility with a syndicate of banks that was scheduled to expire on September 10, 2004 and an \$80,000,000 note purchase agreement for senior secured notes, placed with private institutions. On May 14, 2003, the Company paid off the revolving credit facility and senior note agreement with proceeds from a new credit agreement of up to \$150,000,000 through GE Capital secured by the Company's assets. On May 19, 2003, related to the early payment of the senior note obligation, the Company issued to the former senior note holders subordinated convertible notes in the aggregate principal amount of \$10,000,000 to satisfy "make-whole" obligations under the senior notes by reason of the prepayment. The subordinated convertible notes included an option whereby the Company could redeem the notes at a discount pursuant to an agreed upon schedule as set forth in the subordinated convertible notes. The Company exercised the redemption option according to the discount schedule pursuant to the subordinated convertible notes and recorded the related obligation and "make-whole", or termination expense, of \$3,837,000. On July 15, 2003, in accordance with the discount schedule, the Company exercised its right to redeem the subordinated convertible notes for \$4,154,000, which included accrued interest through that date.

As a result of this redemption, the Company satisfied all of its obligations related to the early payoff and the "make-whole" provision of the senior note agreement. As part of the GE Capital agreement, the Company entered into a term loan in the amount of \$37,500,000 with an interest rate of one-percent (1%) above the Wall Street Journal prime rate and a maturity date of May 14, 2007. The Company may elect an interest rate of three-percent (3%) above the London Interbank Offered Rate ("LIBOR").

The May 14, 2003 credit agreement also included a revolving credit facility of up to \$112,500,000, of which available credit under the facility is based on a percentage of the Company's eligible accounts receivable and inventories. Availability under the revolving facility is adjusted monthly and interest is due in arrears. The revolving credit facility has a maturity date of May 14, 2007 and at inception, the interest rate on the revolving credit loan was one-percent (1%) above the Wall Street Journal prime rate or, at the election of the Company, three-percent (3%) above LIBOR. The credit facility contains certain restrictive financial covenants relative to operating ratios and capital expenditures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2003	2002
Land, land improvements and buildings	\$ 80,019,568	\$ 86,636,858
Equipment	112,184,212	111,476,360
Less accumulated depreciation	(87,022,027)	(78,864,180)
Land, buildings and equipment - net	105,181,753	119,249,038
Rental property:		
Equipment	--	8,477,034
Less accumulated depreciation	--	(1,926,793)
Rental equipment - net	--	6,550,241
Total	\$ 105,181,753	\$ 125,799,279

Depreciation expense was approximately \$12,674,000, \$15,070,000 and \$14,807,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

7. Leases

The Company leases certain land, buildings and equipment for use in its operations. Total rental expense charged to operations under operating leases was approximately \$3,550,000, \$3,738,000 and \$4,072,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

Minimum rental commitments for all noncancelable operating leases at December 31, 2003 are as follows:

2004	\$2,459,647
2005	975,312
2006	287,754
2007	129,163
2008	59,352
Thereafter	54,208

Until December 31, 2002, Astec Financial Services, Inc. leased equipment to customers under contracts generally ranging from 36 to 48 months. Rental income under such leases was \$662,000, \$2,859,000 and \$2,846,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

At December 31, 2003 the Company did not have outstanding lease receivables and no future minimum rental payments to be received for equipment leased to others.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Retirement and Post-retirement Benefits

The Company sponsors a defined benefit pension plan that covers all employees of its Kolberg-Pioneer, Inc. subsidiary. Benefits paid under this plan are based on years of service multiplied by a monthly amount. In addition, the Company also sponsors two post-retirement medical and life insurance plans covering the employees of its Kolberg-Pioneer, Inc. and Telsmith, Inc. subsidiaries and retirees of its former Barber-Greene subsidiary. The Company's funding policy for all plans is to make the minimum annual contributions required by applicable regulations.

The Company's investment strategy for the Kolberg-Pioneer, Inc. pension plan is to earn a rate of return sufficient to match or exceed the long-term growth of pension liabilities. The investment policy states that the Plan Committee in its sole discretion shall determine the allocation of plan assets among the following four asset classes: cash equivalents, fixed-income securities, domestic equities and international equities. Adequate diversification of the invested assets is assured through investment over several asset classes, investment in a portfolio of diversified assets within an asset class or the use of multiple investment portfolios.

The accrued benefit for 2003 and 2002 for the Company's three post-retirement benefit plans was \$1,120,276 and \$980,866 for the Telsmith, Inc. Retiree Medical and Life Insurance Plan; \$434,830 and \$475,991 for the Kolberg-Pioneer, Inc. Retiree Life Insurance Plan and Post-retirement Medical Plan; and \$82,909 and \$75,120 for the Barber-Greene Retirement Life Insurance Plan.

The following provides information regarding benefit obligations, plan assets and the funded status of the plans:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 9,559,804	\$ 8,176,169	\$ 1,744,260	\$ 1,916,424
Service cost	365,724	387,527	122,189	110,803
Interest cost	607,151	583,709	99,155	106,341
Actuarial (gain) loss	519,815	723,519	(85,038)	(308,789)
Curtailment	(1,682,571)	--	--	--
Benefits paid	(331,905)	(311,120)	(116,420)	(80,519)
Benefit obligation at end of year	9,038,018	9,559,804	1,764,146	1,744,260
Accumulated benefit obligation	9,038,018	7,928,951		
Change in plan assets				
Fair value of plan assets at beginning of year	3,828,387	5,337,936		
Actual return on plan assets	909,420	(1,273,391)		
Employer contribution	404,763	74,962		
Benefits paid	(331,905)	(311,120)		
Fair value of plan assets at end of year	4,810,665	3,828,387		
Funded status (underfunded)	(4,227,353)	(5,731,417)	(1,764,146)	(1,744,260)
Unrecognized net actuarial loss	1,849,439	3,761,302	126,131	212,283
Accrued benefit cost	(2,377,914)	(1,970,115)	(1,638,015)	(1,531,977)
Accounts recognized in the consolidated balance sheets				
Accrued benefit cost	(2,377,914)	(1,970,115)	(1,638,015)	(1,531,977)
Additional minimum liability	(1,849,439)	(2,130,449)		
Accrued benefit liability	(4,227,353)	(4,100,564)	(1,638,015)	(1,531,977)
Accumulated other comprehensive loss	1,849,439	2,130,449		
Net amount recognized	\$(2,377,914)	\$(1,970,115)	\$(1,638,015)	\$(1,531,977)
Weighted-average assumptions as of December 31				
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	4.50%	4.50%		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On September 30, 2003, related to the syndication of the loan by GE Capital, the Company entered into an amendment to the Credit Agreement that reduced the availability under the credit facility from \$112,500,000 to \$87,500,000, which includes \$5,000,000 for use by the Canadian subsidiary Breaker Technology Ltd. In addition, the amendment increased the interest rate on the term loan and the revolving facility to one and one-half (1.5%) percent above prime or, at the election of the Company, to three and one-half (3.5%) percent above LIBOR.

The Company was not in compliance with a financial covenant under its credit facility as of December 31, 2003. On March 3, 2004 the Company entered into an amendment to the credit agreement, which waived the covenant violation and amended the financial covenants for 2004.

The Company's Canadian subsidiary, Breaker Technology Ltd, has available a credit facility issued by GE Capital dated May 14, 2003 with a term of four years for \$5,000,000 to finance short-term working capital needs, as well as to cover the short-term establishment of letter of credit guarantees. As of December 31, 2003, Breaker Technology Ltd had an outstanding cash balance due under the credit facility of \$50,000 and approximately \$195,000 in letter of credit guarantees under the facility. The Company is the primary guarantor to GE Capital of payment and performance for this \$5,000,000 credit facility. The term of the guarantee is equal to the related debt. The maximum potential amount of future payments the Company would be required to make under its guarantee at December 31, 2003 is \$245,000, of which \$50,000 is recorded as debt in the accompanying consolidated balance sheet.

In accordance with Emerging Issues Task Force (EITF) Issue 95-22 *Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Arrangement*, the Company classifies the revolving credit facility as a current liability in its financial statements. The aggregate of all maturities of long-term debt, which does not include the revolving credit facility, in each of the next five years is as follows:

2004	\$8,688,521	2007	\$17,760,635
2005	5,867,778	2008	---
2006	5,867,778	Thereafter	9,200,000

For 2003, the weighted average interest rate on short-term borrowings, which includes current maturities of Industrial Revenue Bonds, was 4.63%

9. Product Warranty Reserves

Changes in the Company's product warranty liability during the year are as follows:

	2003	2002
Reserve balance at beginning of period	\$ 3,646,045	\$ 3,277,268
Warranty liabilities accrued during the period	7,663,534	8,840,731
Warranty liabilities settled during the period	(7,696,649)	(8,471,954)
Reserve balance at end of period	\$ 3,612,930	\$ 3,646,045

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 warrant liability is primarily based on historical claim rates, nature of claims and the associated costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income Taxes

For financial reporting purposes, income (loss) before income taxes includes the following components:

	Year Ended December 31,		
	2003	2002	2001
United States	\$ (34,295,452)	\$ (9,185,974)	\$ 1,933,324
Foreign	878,444	2,060,993	1,663,724
Income (loss) before income taxes	\$ (33,417,008)	\$ (7,124,981)	\$ 3,597,048

The provision (benefit) for income taxes consisted of the following:

	Year Ended December 31,		
	2003	2002	2001
Current provision (benefit)	\$ 1,022,232	\$ (3,551,979)	\$ 381,396
Deferred provision (benefit)	(5,508,648)	1,040,713	1,099,352
Total provision (benefit) for income taxes	\$ (4,486,416)	\$ (2,511,266)	\$ 1,480,748

A reconciliation of the provision (benefit) for income taxes at the statutory federal rate to the amount provided (benefited) is as follows:

	Year Ended December 31,		
	2003	2002	2001
Tax at statutory rates	\$ (11,361,783)	\$ (2,493,743)	\$ 1,258,967
Benefit from foreign sales	(190,961)	(265,878)	(474,315)
State taxes, net of federal income tax	283,920	(208,445)	1,586
Non-deductible goodwill impairment	5,389,411		
Other permanent differences	343,376	456,800	859,329
Change in valuation allowance	1,049,621		
Other items			(164,819)
Income tax provision (benefit)	\$ (4,486,416)	\$ (2,511,266)	\$ 1,480,748

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Due to uncertainty regarding the realization of certain state tax loss carryforwards, the Company established a valuation allowance in 2003. As of December 31, 2003 the Company has federal net operation loss carryforwards of approximately \$12,500,000 which are available to reduce future taxable income. These loss carryforwards expire in 2023 if not utilized earlier.

Significant components of the Company's deferred tax liabilities and assets are as follows:

	Year Ended December 31,	
	2003	2002
Deferred tax assets:		
Inventory reserves	\$ 3,447,507	\$ 2,986,350
Warranty reserves	1,044,347	1,066,751
Bad debt reserves	671,104	940,538
Federal net operating loss carryforwards	4,393,225	
State tax loss carryforwards	1,324,111	
Other	6,462,890	7,928,366
Total deferred tax assets	17,343,184	12,922,005
Deferred tax liabilities:		
Property and equipment	9,462,299	11,036,376
Other	821,799	1,384,812
Total deferred tax liabilities	10,284,098	12,421,188
Valuation allowance	(1,049,621)	
Net deferred tax asset	\$ 6,009,465	\$ 500,817

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2003 a layoff occurred, resulting in a curtailment gain of \$147,249. A freeze in plan benefits also occurred in 2003, resulting in a curtailment gain of \$1,535,322. The total gain of \$1,682,571 was offset against the outstanding balance of unrecognized losses and had no effect on plan costs during 2003.

The return on plan assets reflects the weighted-average of the expected long-term rate of return for the broad categories of investments held in the plan. The expected long-term rate of return is adjusted when there are fundamental changes in expected returns on the plan investments. The fair value of plan assets at December 31, 2003 and 2002 consisted entirely of equity securities.

The weighted average annual assumed rate of increase in per capita health care costs is ten percent (10.0%) for 2004 and is assumed to decrease gradually to five and three-quarter percent (5.75%) for 2012 and remain at that level thereafter. A one percent (1.0%) increase or decrease in the medical inflation rate would not have a significant effect on either the benefit obligation or the aggregate service and interest cost components of net periodic benefit cost.

Net periodic benefit cost for 2003, 2002 and 2001 included the following components:

	Pension Benefits			Other Benefits		
	2003	2002	2001	2003	2002	2001
Components of net periodic benefit cost						
Service cost	\$365,724	\$387,527	\$393,391	\$122,189	\$110,803	\$117,596
Interest cost	607,151	583,709	528,474	99,155	106,341	122,610
Expected return on plan assets	(339,393)	(467,132)	(558,237)			
Amortization of transition obligation				29,921	29,707	30,555
Recognized net actuarial (gain) loss	179,080	86,264		(28,807)	(14,746)	
Net periodic benefit cost	\$812,562	\$590,368	\$363,628	\$222,458	\$232,105	\$270,761

The Company expects to contribute approximately \$1,400,000 to the pension plan and approximately \$62,000 to the other benefit plans during 2004.

The Company sponsors a defined contribution plan to provide eligible employees with additional income upon retirement. The Company's contributions to the plan are based on employee contributions. The Company's contributions totaled \$1,931,000 in 2003, \$2,276,000 in 2002 and \$2,303,000 in 2001.

The Company maintains a supplemental executive retirement plan ("SERP") for certain of its executive officers. The plan is a non-qualified deferred compensation plan administered by the Board of Directors of the Company, pursuant to which the Company makes quarterly cash contributions of a certain percentage of executive officers' annual salaries. The SERP invests the cash contributions in Company Common Stock that it purchases on the open market. Upon retirement, executives may receive their apportioned contributions of the plan assets as Company stock or cash.

Assets of the supplemental executive retirement plan consisted of the following:

	December 31, 2003			December 31, 2002		
	Shares	Cost	Market	Shares	Cost	Market
Company stock	99,009	\$ 1,459,000	\$ 1,215,000	79,069	\$ 1,283,000	\$ 786,000
Equity securities	75,870	632,000	595,000	69,593	571,000	476,000
Total	174,879	\$ 2,091,000	\$ 1,810,000	148,662	\$ 1,854,000	\$ 1,262,000

The Company's two post-retirement medical and life insurance plans provide prescription drug benefits that may be affected by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), signed into law in December 2003. In accordance with FASB Staff Position FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the effects of the Act on the Company's medical plans have not been included in the measurement of the accumulated post-retirement benefit obligation or net periodic post-retirement benefit cost for 2003. Specific authoritative guidance from the FASB on the accounting for the federal subsidy is pending and that guidance, when issued, may require the Company to restate previously reported information and may require the Company to amend its plans to benefit from the Act.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the Company's stock option activity and related information for the years ended December 31, 2003, 2002 and 2001 follows:

	Year Ended December 31,					
	2003		2002		2001	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Options outstanding, beginning of year	3,146,242	\$ 18.54	2,622,169	\$ 19.61	2,173,034	\$ 20.53
Options granted at market price	8,262	8.69	608,162	14.45	596,586	12.91
Options granted at above market price	--	--	6,269	15.95	7,007	14.27
Options forfeited	92,847	19.20	37,618	27.91	7,850	22.44
Options exercised	56,000	6.82	52,740	9.88	146,608	5.03
Options outstanding, end of year	3,005,657	\$ 18.72	3,146,242	\$ 18.54	2,622,169	\$ 19.61

The weighted average fair value of options granted whose exercise price was equal to the market price of the stock on the grant date was \$4.83, \$5.77 and \$5.25 for the years ended December 31, 2003, 2002 and 2001, respectively. The weighted average fair value of options granted whose exercise price exceeded the market price of the stock on the grant date was \$7.67 and \$7.72 for the years ended December 31, 2002 and 2001, respectively. No options were granted during 2003 whose exercise price exceeded the market price of the stock on the grant date.

The following table summarizes information about the stock options outstanding under the Company's option plans as of December 31, 2003:

Options Outstanding			Options Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
\$4.56 - \$6.44	246,744	3 years	\$ 5.15	246,744	\$ 5.15
\$7.44 - \$14.27	538,280	7 years	12.93	538,280	12.93
\$14.50 - \$19.11	1,128,613	6 years	15.90	1,128,613	15.90
\$22.93 - \$36.00	1,092,020	5 years	27.54	1,092,020	27.54
Total	3,005,657	6 years	\$ 18.72	3,005,657	\$ 18.72

The Company has adopted a Shareholder Protection Rights Agreement and declared a distribution of one right (the "Right") for each outstanding share of Company common stock, par value \$0.20 per share (the "Common Stock"). Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Unit") of Series A Participating Preferred Stock, par value \$1.00 per share (the "Preferred Stock"), at a purchase price of \$18.00 per Unit, subject to adjustment. The Rights currently attach to the certificates representing shares of outstanding Company Common Stock, and no separate Rights certificates will be distributed. The Rights will separate from the Common Stock upon the earlier of ten business days (unless otherwise delayed by the Board) following the 1) public announcement that a person or group of affiliated or associated persons (the "Acquiring Person") has acquired, obtained the right to acquire, or otherwise obtained beneficial ownership of fifteen percent (15%) or more of the then outstanding shares of Common Stock, or 2) commencement of a tender offer or exchange offer that would result in an Acquiring Person beneficially owning fifteen percent (15%) or more of the then outstanding shares of Common Stock. The Board of Directors may terminate the Rights without any payment to the holders thereof at any time prior to the close of business ten business days following announcement by the Company that a person has become an Acquiring Person. The Rights, which do not have voting power and are not entitled to dividends, expire on December 21, 2005. In the event of a merger, consolidation, statutory share exchange or other transaction in which shares of Common Stock are exchanged, each Unit of Preferred Stock will be entitled to receive the per share amount paid in respect of each share of Common Stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Contingencies

Management has reviewed all claims and lawsuits and, upon the advice of counsel, has made adequate provision for any estimable losses. However, the Company is unable to predict the ultimate outcome of the outstanding claims and lawsuits.

Certain customers have financed purchases of the Company's products through arrangements in which the Company is contingently liable for customer debt of approximately \$19,820,000 and for residual value guarantees aggregating approximately \$1,305,000 at December 31, 2003 and contingently liable for customer debt of approximately \$14,749,000 at December 31, 2002. The GE Capital credit facility dated May 14, 2003 limits contingent liabilities or guaranteed indebtedness created after May 14, 2003 to an aggregate total of \$5,000,000 at any time, or to \$2,000,000 for any one customer. As of December 31, 2003, guaranteed indebtedness created under the current loan agreement dated May 14, 2003 was \$741,000. At December 31, 2003 the maximum potential amount of future payments for which the Company would be liable is equal to the amounts above. Because the Company does not believe it will be called on to fulfill any of these contingencies, the carrying amounts on the consolidated balance sheets of the Company for these contingent liabilities are zero.

The Company is attempting to sell its Grapevine, Texas facility. The future sale of the Grapevine facility should generate additional funds, the first \$6,250,000 of which will be used to reduce the term loan and the remainder will be used to provide working capital or reduce the revolver. There can be no assurances on when, or if, the Company will be successful in selling the Grapevine facility.

13. Shareholders' Equity

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options. Under APB 25, when the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is generally recognized.

Under terms of the Company's stock option plans, officers and certain other employees may be granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option is granted. The Company has reserved shares of common stock for exercise of outstanding non-qualified options and incentive options of officers and employees of the Company and its subsidiaries at prices determined by the Board of Directors. In addition, a Non-employee Directors Stock Incentive Plan has been established to allow non-employee directors to have a personal financial stake in the Company through an ownership interest. Directors may elect to receive their compensation in common stock, deferred stock or stock options. Options granted under the Non-employee Directors Stock Incentive Plan and the Executive Officer Annual Bonus Equity Election Plan vest and become fully exercisable immediately. Generally, other options outstanding vest over 12 months. All stock options have a ten-year term. The shares reserved under the various stock option plans are as follows: 1) 1992 Stock Option Plan - 243,948, 2) 1998 Long-term Incentive Plan - 2,726,346, 3) Executive Officer Annual Bonus Equity Election Plan - 16,892 and 4) 1998 Non-employee Directors Stock Plan - 18,471.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options. These options have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All Others - This category consists of the Company's other business units, including the parent company, Astec Industries, Inc., that do not meet the requirements for separate disclosure as an operating segment. Revenues in this category are derived primarily from operating leases owned by the Company's former finance subsidiary.

The Company evaluates performance and allocates resources based on profit or loss from operations before federal income taxes and corporate overhead. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intersegment sales and transfers are valued at prices comparable to those for unrelated parties. For management purposes, the Company does not allocate federal income taxes or corporate overhead (including interest expense) to its business units.

Segment information for 2003

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$119,301,796	\$177,707,898	\$75,153,367	\$52,409,865	\$ 2,040,111	\$426,613,037
Intersegment revenues	7,811,843	10,118,919	330,116	(859,552)	1,448,277	18,849,603
Interest expense	68,776	246,823	28,143	323,249	6,622,064	7,289,055
Depreciation and amortization	4,171,523	4,337,945	1,794,981	1,914,772	907,011	13,126,232
Segment profit (loss)	(2,712,020)	5,124,259	559,516	(22,003,677)	(10,372,369)	(29,404,291)
Segment assets	147,701,636	203,153,706	75,506,077	64,368,972	220,370,637	711,101,028
Capital expenditures	345,987	1,113,922	466,009	1,624,919	37,460	3,588,297

Segment information for 2002

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$165,950,960	\$199,360,534	\$71,905,997	\$39,454,630	\$ 3,917,672	\$480,589,793
Intersegment revenues	17,908,632	29,819,117	795,998	1,572,296	3,388,390	53,484,433
Interest expense	16,429	583,347	189,293	306,987	9,378,294	10,474,350
Depreciation and amortization	4,469,916	4,437,663	1,935,349	1,684,267	2,684,386	15,211,581
Segment profit (loss)	3,126,983	7,907,885	4,151,862	(8,460,263)	(11,645,534)	(4,919,067)
Segment assets	158,047,527	203,445,864	75,542,665	73,399,055	266,039,667	776,474,778
Capital expenditures	2,410,339	1,887,448	1,225,450	13,153,489	597,206	19,273,932

Segment information for 2001

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$142,673,987	\$182,868,140	\$78,487,989	\$48,655,104	\$ 3,153,944	\$455,839,164
Intersegment revenues	18,021,023	12,722,446	3,092,286	59,179	3,174,416	37,069,350
Interest expense		463,397	314,616	255,264	8,333,777	9,367,054
Depreciation and amortization	4,986,576	5,492,486	2,174,634	2,228,693	2,163,183	17,045,572
Segment profit (loss)	5,021,537	7,460,549	9,020,534	(4,837,408)	(14,080,215)	2,584,997
Segment assets	157,947,201	200,699,113	66,712,447	57,501,404	245,183,271	728,043,436
Capital expenditures	3,103,740	3,025,609	1,106,839	453,438	367,796	8,057,422

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Financial Instruments

Fair Value of Financial Instruments - The book value of the Company's financial instruments approximates their fair value. Financial instruments include cash, accounts receivable, finance receivables, accounts payable, long- and short-term debt. The Company's short- and long-term debt is floating rate debt and, accordingly, book value approximates its fair value.

Derivative Financial Instruments - The Company only uses derivatives for hedging purposes. Until its termination on May 13, 2003, the Company had a cash flow hedge, which required that the effective portion of the change in the fair value of the derivative instrument be recognized in other comprehensive income ("OCI"), a component of shareholders' equity, and reclassified into earnings in the same period, or periods during which the hedged transaction affected earnings. The ineffective portion of the hedge, if any, was recognized in current operating earnings during the period of change in fair value.

Astec Financial Services, Inc. entered into an interest rate swap agreement on April 6, 2000 to fix interest rates on variable rate debt. The swap agreement, originally effective for five years with a notional amount of \$7,500,000, was terminated on May 13, 2003, requiring a cash payment of \$881,500. The objective of the hedge was to offset the variability of cash flows relating to the interest payments on the variable rate debt outstanding under the Company's revolving credit facility. The sole source of the variability in the hedged cash flows resulted from changes in the benchmark market interest rate, which was three-month London Interbank Offered Rate.

Under guidance of SFAS 133 amended by SFAS 138 for termination of a cash flow hedge, net derivative gain or loss related to a discontinued cash flow hedge, are to be accounted for prospectively. The Company continues to pay variable rate interest under its new debt agreement. The \$881,500 in OCI at the swap termination date will be amortized into earnings through interest expense over the remaining life of the original hedge, provided the variable-rate interest obligations continue to exist. From the termination date of the swap agreement through December 31, 2003, the Company had OCI amortized through interest expense of approximately \$287,000. Monthly amortization of OCI through interest expense is expected to approximate \$38,000 through April 2005.

15. Operations by Industry Segment and Geographic Area

The Company has four reportable operating segments. These segments are combinations of business units that offer different products and services. The business units are each managed separately because they manufacture and distribute distinct products that require different marketing strategies. A brief description of each segment is as follows:

Asphalt Group - This segment consists of three operating units that design, manufacture and market a complete line of portable, stationary and relocatable hot-mix asphalt plants and related components and a variety of heaters, heat transfer processing equipment and thermal fluid storage tanks. The principal purchasers of these products are asphalt producers, highway and heavy equipment contractors and foreign and domestic governmental agencies.

Aggregate and Mining Group - This segment consists of eight operating units that design, manufacture and market a complete line of rock crushers, feeders, conveyors, screens and washing equipment. The principal purchasers of these products are open-mine and quarry operators.

Mobile Asphalt Paving Group - This segment consists of two operating units that design, manufacture and market asphalt pavers, asphalt material transfer vehicles, milling machines and paver screeds. The principal purchasers of these products are highway and heavy equipment contractors and foreign and domestic governmental agencies.

Underground Group - This segment consists of two operating units that design, manufacture and market auger boring machines, directional drills, fluid/mud systems, chain and wheel trenching equipment, rock saws, road miners and material processing equipment. The principal purchasers of these products are pipeline and utility contractors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

International sales by major geographic regions were as follows:

Year Ended December 31,			
	2003	2002	2001
Asia	\$ 1,258,587	\$ 1,823,596	\$ 2,020,836
Southeast Asia	14,905,004	11,377,856	6,462,062
Europe	13,529,481	6,121,596	12,951,596
South America	2,800,534	4,299,233	6,536,419
Canada	13,250,757	14,603,301	13,356,316
Australia	9,064,965	3,836,008	1,642,519
Africa	26,378,309	20,549,157	23,855,351
Central America	5,779,787	9,862,927	20,602,844
Middle East	1,970,874	274,445	666,312
West Indies	5,012,990	3,669,768	2,398,950
Other	1,657,633	2,888,426	917,346
Total	\$ 95,608,921	\$ 79,306,313	\$ 91,410,551

16. Finance Receivables

Finance receivables are receivables of Astec Financial Services, Inc. Contractual maturities of outstanding receivables at December 31, 2003 were:

Amounts Due In	Notes
2004	\$ 286,795
2005	384,443
2006	197,426
Total	\$ 868,664

Receivables may be paid prior to contractual maturity, generally by payment of a prepayment penalty. At December 31, 2003 there were no impaired loans or leases. Recognition of income on finance receivables is suspended when management determines that collection of future income is not probable. Accrual is resumed if the receivable becomes contractually current and collection doubts are removed. Previously suspended income is recognized at that time.

17. Other Comprehensive Income

The balance of related after-tax components comprising accumulated other comprehensive income (loss) are summarized below:

Year Ended December 31,			
	2003	2002	2001
Foreign currency translation adjustment	\$ 2,628,659	\$ (988,356)	\$ (2,336,401)
Unrealized loss on cash flow hedge, net of tax	(368,314)	(587,445)	(439,730)
Minimum pension liability adjustment, net of tax	(1,146,652)	(1,320,879)	
Accumulated other comprehensive income (loss)	\$ 1,113,693	\$ (2,896,680)	\$ (2,776,131)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliations of the reportable segment totals for revenues, profit or loss, assets, interest expense, depreciation and amortization and capital expenditures to the Company's consolidated totals are as follows:

	Year Ended December 31,		
	2003	2002	2001
Sales:			
Total external sales for reportable segments	\$ 424,572,926	\$ 476,672,121	\$ 452,685,220
Intersegment sales for reportable segments	17,401,326	50,096,043	33,894,934
Other sales	3,488,388	7,306,062	6,328,360
Elimination of intersegment sales	(18,849,603)	(53,484,433)	(37,069,350)
Total consolidated sales	\$ 426,613,037	\$ 480,589,793	\$ 455,839,164
Profit (loss):			
Total profit (loss) for reportable segments	\$ (19,031,922)	\$ 6,726,467	\$ 16,665,212
Other (loss)	(10,372,369)	(11,645,534)	(14,080,215)
Equity in loss of joint venture			(241,922)
Minority interest in earnings of subsidiary	(33,413)	(92,211)	(123,878)
Elimination of intersegment profit (loss)	473,699	305,352	(226,775)
Total consolidated net income (loss)	\$ (28,964,005)	\$ (4,705,926)	\$ 1,992,422
Assets:			
Total assets for reportable segments	\$ 490,730,391	\$ 510,435,111	\$ 482,860,165
Other assets	220,370,637	266,039,667	245,183,271
Elimination of intercompany profit in inventory and leased equipment	(258,430)	(732,129)	(53,481)
Elimination of intercompany receivables	(201,027,986)	(182,276,729)	(149,056,131)
Elimination of investment in subsidiaries	(149,233,666)	(143,227,984)	(143,943,282)
Other eliminations	(39,624,481)	(33,734,809)	(34,299,556)
Total consolidated assets	\$ 320,956,465	\$ 416,503,127	\$ 400,690,986
Interest expense:			
Total interest expense for reportable segments	\$ 666,991	\$ 1,096,056	\$ 1,033,277
Other interest expense	6,622,064	9,378,294	8,333,777
Total consolidated interest expense	\$ 7,289,055	\$ 10,474,350	\$ 9,367,054
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	\$ 12,219,221	\$ 12,527,195	\$ 14,882,389
Other depreciation and amortization	907,011	2,684,386	2,163,183
Total consolidated depreciation and amortization	\$ 13,126,232	\$ 15,211,581	\$ 17,045,572
Capital expenditures:			
Total capital expenditures for reportable segments	\$ 3,550,837	\$ 18,676,726	\$ 7,689,626
Other capital expenditures	37,460	597,206	367,796
Total consolidated capital expenditures (excluding those for equipment leased to others)	\$ 3,588,297	\$ 19,273,932	\$ 8,057,422

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Astec Industries, Inc.

We have audited the accompanying consolidated balance sheets of Astec Industries, Inc. and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astec Industries, Inc. and subsidiaries at December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and intangible assets.

Chattanooga, Tennessee
February 25, 2004,
except for Note 8, as to which the date is
March 5, 2004

Ernst & Young LLP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Assets Held for Sale

In 2002 the Company acquired a 300,000 square-foot manufacturing facility located on 108 acres in Loudon, Tennessee. Related to this transaction, the Trenchor, Inc. manufacturing operations formerly located in Grapevine, Texas were relocated to the Loudon, Tennessee facility during the fourth quarter of 2002. Expenses incurred during 2002 related to relocation and start-up were \$3,276,559. A portion of the office space of the Grapevine, Texas facility is currently leased to an unrelated party. The Company continues to actively pursue a buyer for the Grapevine, Texas facility and believes it will be sold in 2004 for a gain. The carrying value of equipment, land and building totaling \$4,980,757 is classified as "assets held for sale" in the balance sheet and is included in the assets of the Underground Group segment.

During the third quarter of 2003 the Company discontinued manufacturing operations at its Pavement Technology, Inc. facility located in Covington, Georgia. Certain office and manufacturing space of the facility are currently leased to the unrelated, but former president of this facility. The property is listed with a local realtor and the Company is actively pursuing a 2004 sale of this manufacturing facility. The Company expects to net an amount approximating the carrying value of equipment, land and building of \$770,618, which is classified as "assets held for sale" in the balance sheet and is included in the assets of the Asphalt Group segment.

19. Restatement

The Company has restated the condensed consolidated balance sheets for the quarters ended June 30, 2003 and September 30, 2003 to properly classify the revolving credit loan with GE Capital as a current liability in accordance with EITF Issue No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include both a Subjective Acceleration Clause and a Lock-Box Arrangement*.

The following table reflects the impact of the reclassification:

Astec Industries, Inc. and Subsidiaries Consolidated Balance Sheets (in thousands)				
	June 30, 2003 (unaudited)		September 30, 2003 (unaudited)	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Assets				
Current Assets				
Cash and cash equivalents	\$ 11,280	\$ 11,280	\$ 12,610	\$ 12,610
Trade receivables, net	55,180	55,180	57,313	57,313
Other receivables	2,429	2,429	2,183	2,183
Inventories	113,740	113,740	108,932	108,932
Prepaid expenses and other	23,204	23,204	19,594	19,594
Total current assets	205,833	205,833	200,632	200,632
Property and equipment - net	115,357	115,357	112,969	112,969
Goodwill	36,909	36,909	36,889	36,889
Other assets	5,431	5,431	5,149	5,149
Total assets	\$ 363,530	\$ 363,530	\$ 355,639	\$ 355,639
Liabilities and Shareholders' Equity				
Current Liabilities				
Revolving credit loan		\$ 27,782		\$ 39,641
Notes payable and current maturities of long-term debt	\$ 9,555	9,555	\$ 6,409	6,409
Accounts payable - trade	34,158	34,158	28,948	28,948
Accrued product warranty	3,739	3,739	3,841	3,841
Other accrued liabilities	34,929	34,929	33,028	33,028
Total current liabilities	82,381	110,163	72,226	111,867
Long-term debt, less current maturities	78,155	50,373	80,682	41,041
Other non-current liabilities	10,638	10,638	10,645	10,645
Minority interest in consolidated subsidiary	451	451	475	475
Total shareholders' equity	191,905	191,905	191,611	191,611
Total liabilities and shareholders' equity	\$ 363,530	\$ 363,530	\$ 355,639	\$ 355,639



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