ASTEC INDUSTRIES, INC.

2004 ANNUAL REPORT

FINANCIAL OVERVIEW

(In thousands, except as noted *)

Astec Industries, Inc.

	2004	2003	2002	2001	2000
Operating Results					
Net sales	$504,554	$402,066	$458,428	$435,869	$497,721
Net income (loss)	19,053	(28,964)	(4,706)	1,992	26,281
Financial Position					
Working capital	$106,489	$81,001	$173,224	$161,867	$153,389
Long-term debt, less current maturities	25,857	38,696	130,645	127,285	118,511
Shareholders' equity	191,256	167,517	192,647	197,347	194,623
Per Common Share*					
Net income (loss)					
Basic	$0.96	($1.47)	($0.24)	$0.10	$1.37
Diluted	0.95	($1.47)	(0.24)	0.10	1.33
Book value per common share at year-end	9.52	8.49	9.79	10.07	10.07
Other Data					
Weighted average number of common shares outstanding					
Basic	19,741	19,672	19,638	19,442	19,222
Diluted	20,079	19,672	19,638	19,753	19,721
Associates*	2,657	2,547	2,772	2,854	3,301

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

We are pleased to report that in 2004 the Company returned to profitability after three disappointing years. While we have improved, we have not reached the level of performance that we saw in the late 90's and in early 2000. We believe that in 2005 and 2006 we will continue to see improvement in our performance, provided the economy remains strong and Congress approves new federal highway funding that eventually leads to a five-or six-year highway bill. Revenues for 2004 were $504.6 million compared to revenues of $402.1 million in 2003. Net income for the year was $19.1 million as compared to a loss of $29.0 million in 2003. Net income per diluted share in 2004 was $0.95 compared to a loss of $1.47 per diluted share in 2003. During 2004, we incurred significant price increases, particularly in steel as well as in purchased components manufactured from steel, copper, aluminum, and other metals. The continuing rise in oil prices negatively affected the performance of our customers. The lack of a six-year highway authorization bill led to a decrease in customer confidence. Congress did, however, approve short-term extensions that allowed state departments of transportation to award smaller contracts, providing for pavement resurfacing and rehabilitation projects and somewhat increasing our customers' volumes.

Over the last eighteen months, we have incurred expenses related to a trade-secret lawsuit initiated by one of our former suppliers. Fortunately, we prevailed in the lawsuit in early December. In 2004, we were unable to close the sale of the Grapevine, Texas property, but we hope to close the sale in the second quarter of 2005. During 2004, we reduced our debt with proceeds from the sale of our Superior Industries of Morris, Inc. subsidiary. Our total debt reduction during the year was $38.2 million.

During the year we reevaluated a number of product lines. In the mobile screening business we changed the name Production Engineered Products to Astec Mobile Screens, Inc. The mobile screening product line of Kolberg-Pioneer, Inc. ("KPI") was moved to Astec Mobile Screens, Inc. and combined with the former Production Engineered Products line. This allowed one company to focus on a dealer network to sell mobile screening plants and eliminated the situation where common products were being sold by two subsidiaries.

On June 30, 2004 we sold the assets and liabilities of Superior Industries of Morris, Inc. in Morris, Minnesota to a group of investors led by the former owners of the company. When we acquired Superior Industries of Morris, Inc., we felt that the manufacturing of our own conveyor components would benefit the Company. Currently, sourcing commodity components internationally appears to be more beneficial to the Company, and through the sale of this subsidiary, we were able to substantially reduce debt.

During 2004, we saw the most rapid rise in steel prices in the history of the Company. Unfortunately, our own price increases were unable to keep up with the rapid rise in component prices. As we enter 2005, we expect a stabilization of these prices, or at least a slowing down of the increase. Due to the cutbacks that occurred in prior years, in 2004 the improved utilization of plant capacity offset some of the steel increases.

As mentioned earlier, the lack of highway funding also led to a lack of customer confidence. Even with the decrease in customer confidence, we believe that pent-up demand caused certain customers to purchase equipment, which resulted in an increase in our sales in 2004. If the new highway bill is signed into law in 2005, we are optimistic the resulting increase in customer confidence will lead to a continuing rise in revenues. We also expect a stabilization of component prices, which we are also optimistic would bring continuing improvement in our profitability.

The Company's aggressive product development program continued throughout 2004. We now have two new burners to offer the asphalt paving market. Also during the year, Roadtec updated its lines of asphalt pavers and milling machines and introduced a new paver with a built-in liquid asphalt tank to spray asphalt directly in front of the distribution augers. We continue to increase our sales of the highly portable FastPack® crushing plant produced by the Johnson Crushers International, Inc. ("JCI"), KPI, Astec Mobile Screens, Inc., and Breaker Technology Ltd./Breaker Technology Inc. ("BTI") subsidiaries. During 2004, JCI introduced a new line of track-mounted jaw crushers, KPI introduced a new line of impact crushers, and Astec Mobile Screens, Inc. introduced a new line of screens. The market's acceptance of these products has been excellent. In addition, the Astec, Inc. and Astec Mobile Screens, Inc. subsidiaries introduced a new recycling system that will allow the injection of up to 50% recycled materials while meeting all gradation requirements for Superpave mixes, a performance-based system of specifications for designing asphalt pavements. We believe that this innovation has resulted in a considerable cost reduction for our customers. Through the utilization of the new computerized control system and the new burner with the Astec Double Barrel®, customers can change production of all-virgin mixes to 50% recycled materials without making any significant modifications to their plants.

The Astec Underground segment continues to improve its performance. At the beginning of 2004, the Case distribution agreement was extended until September 30, 2004. During 2004, Astec Underground began to establish its own dealer network. On October 1, 2004, Astec Underground assumed the distribution of Case New Holland Trencher parts. We anticipate that over the next eighteen months, this should result in increased parts volume. Astec Underground also introduced a line of tool carriers and two mid-line trenchers. We believe these new products will be attractive to our customers.

The equipment the Company builds is a key component to the continuing freedom of the American public. The American automobile allows us the freedom to live where we want to live, work where we want to work, and to go to school, church, and shop where we choose. The network of water, sewer, and gas lines, along with our electrical and communication lines hidden beneath the surface, constitute the largest network of infrastructure in the world. Unfortunately, much of our infrastructure is aging and there will be continuing needs to rehabilitate it as well as to expand it. We are proud that our equipment plays a major role in the building and rebuilding of the world's infrastructure. We continually work to design and build the most efficient, cost effective equipment to meet the needs of our customers as they build and rebuild this infrastructure. As we do this, we hope to continue to improve the performance of the Company and provide our shareholders with a better return. We appreciate the continuing dedication of our many employees and the loyalty and support of our shareholders and customers.

Yours very truly,

J. Don Brock

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

REVITALIZING THE WORLD'S UNDERGROUND INFRASTRUCTURE

In last year's annual report, we discussed the future of America's roads and the growing needs of our highway system. Hidden under the earth, though, forgotten by the public, is a system of water, sewer, storm water, power, natural gas, and communication lines that form the second largest public works infrastructure in the world after the highway system.

Since our underground utilities were installed, most cities now have buildings, roadways, sidewalks, homes, and lawns built above a complex system of pipes, cables, and lines. As a result, new technology has emerged to allow the repair and replacement of these systems without opening trenches and affecting the roads and structures above. American Augers, a subsidiary of Astec Industries, Inc., was one of the pioneers in developing the trenchless technology necessary to maintaining the world's underground infrastructure.

The Environmental Protection Agency estimates United States infrastructure needs for water and sewer systems alone could exceed $540 billion by 2019. As the world's population increases and communities implement additional health safeguards, private industry estimations indicate that infrastructure needs may actually be approaching $1 trillion dollars. The biggest problem is that many of these systems were put in place fifty to one hundred years ago, and in many cases, they are reaching the end of their design life. For Europe, this number is much higher, partly because of the infrastructure neglect in the former communist countries.

The market dynamics over the past couple of years have matured the trenchless industry, especially in the area of Horizontal Directional Drilling (HDD). HDD's importance during the telecom boom as a method of installing fiber optic cable is now overshadowed by its role in the maintenance of the world's infrastructure. HDD and trenchless technology in general have evolved into important tools for contractors working to complete all types of underground projects in a timely, efficient, and profitable manner.

One important application of trenchless technology is in the replacement of underground pipes. For example, up to 20% of all treated fresh water is lost through old, leaking pipes. High Density Polyethylene piping (HDPE) is ideal for HDD because of its bend radius, and it is becoming the pipe of choice in water systems of all types since it is the only pipe that is leak proof. Because of its ability to replace antiquated piping with new materials like HDPE, trenchless technology has become more popular in recent years as a method of construction, repair, and rehabilitation of water systems.

The traditional repair method for water and sewer lines practiced by most communities over the past century was "cut-and-cover." But as population density increases and the costs associated with open-cut construction continue to increase, municipalities have had to look for other options to help maintain their water systems. In most cases, water and sewer lines are buried from 25 to 40 feet below the surface, making them the deepest utility lines. Open cut trenches can require a great deal of shoring to make sure safety regulations are upheld. They also create liability

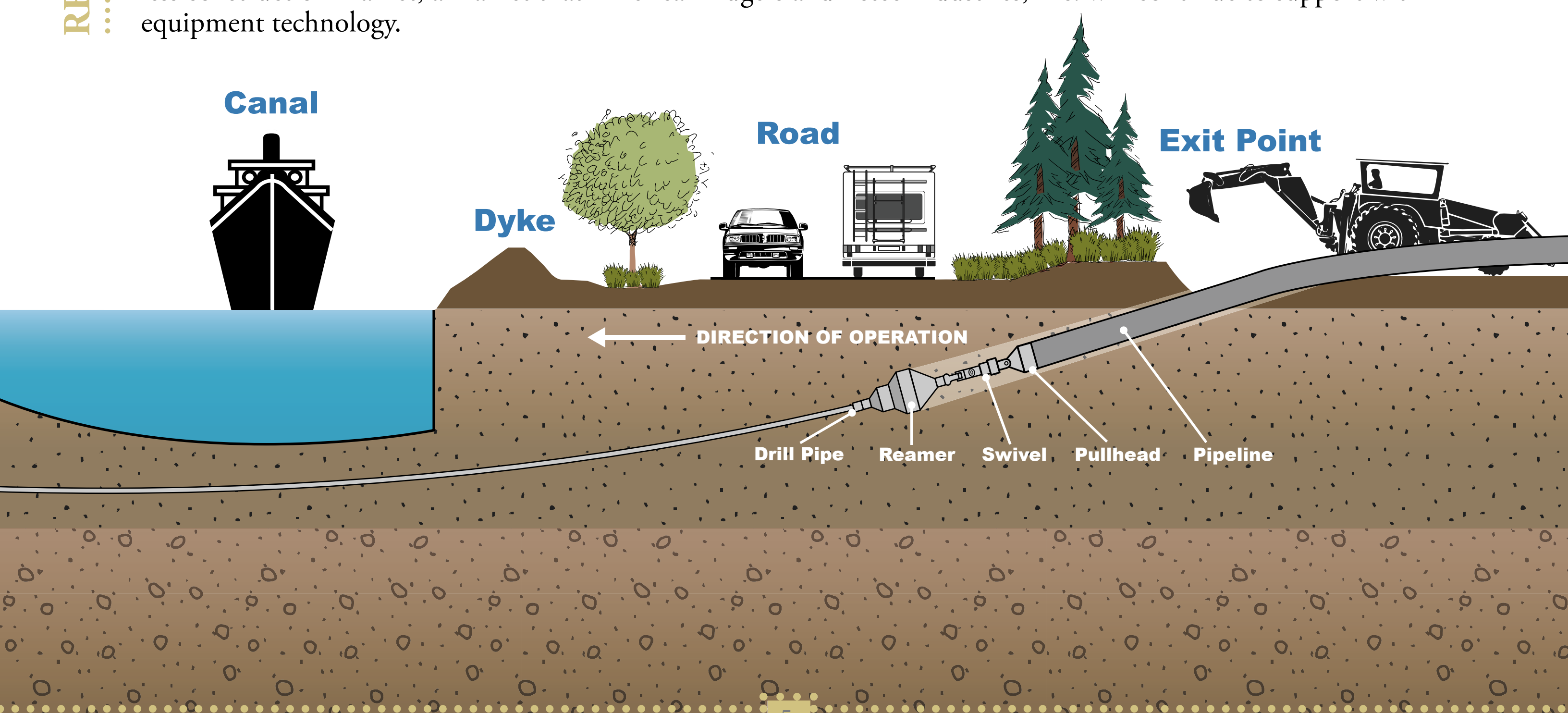
issues for both the contractor and the municipality. Trenchless technology can eliminate these drawbacks of traditional construction methods, while addressing other problems like traffic congestion. In large urban areas, closing roads for utility repair causes a variety of traffic and safety issues that state and local transportation departments are anxious to avoid. Trenchless technology provides a solution to these problems by allowing contractors to work underground without disturbing structures on the surface.

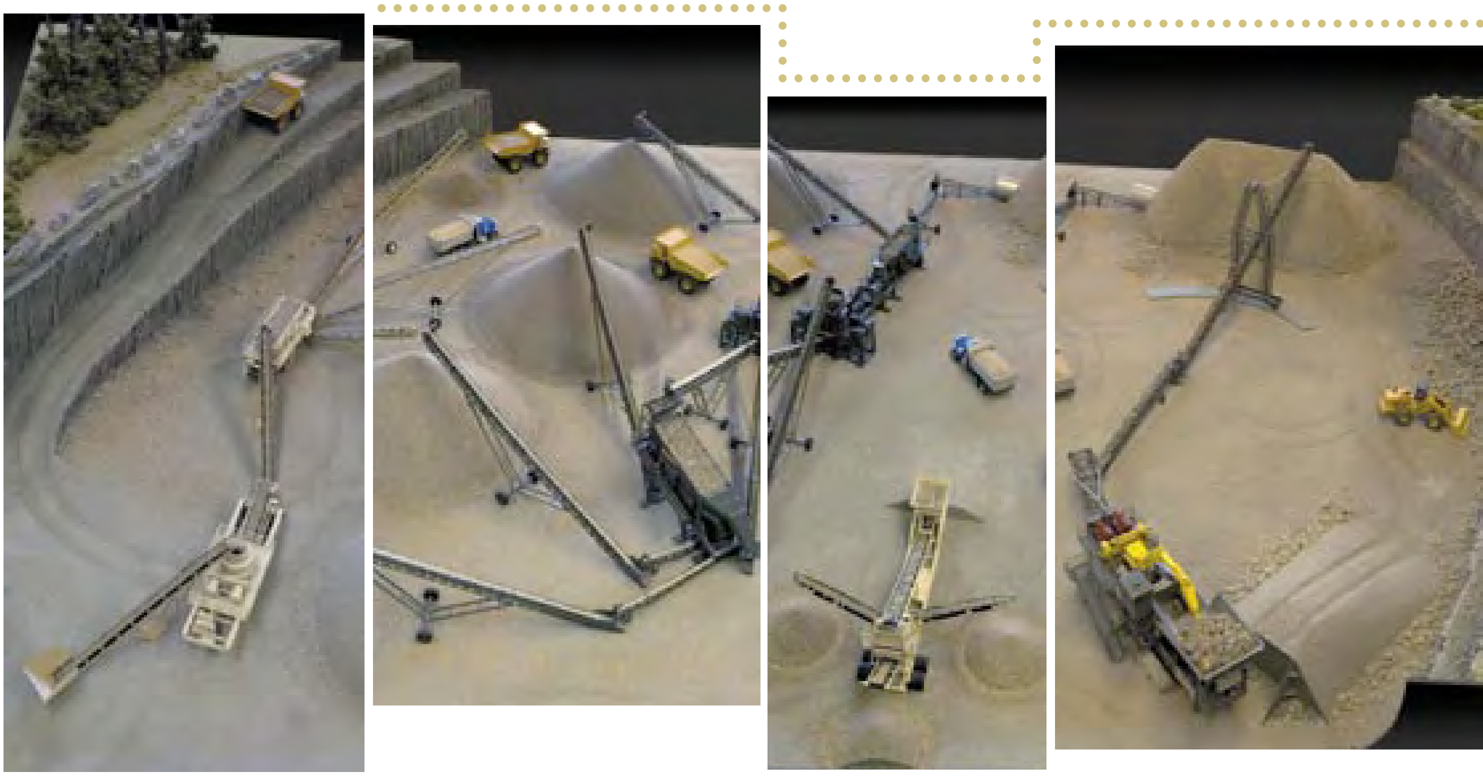
Another major growth area for trenchless technology is the international market. Demand for trenchless construction equipment has been increasing at phenomenal levels, especially in the Far East. Continued population growth in China, India, and the developing economies of the former Soviet Republics is causing a new boom in the trenchless construction market. The massive need for utility infrastructure improvements in this heavily populated region of the world will continue to drive the demand for trenchless construction equipment well into the future.

Adding to the growth potential of the international market for trenchless technology, economies in other parts of the world, including the Middle East and South America, are beginning to recover and invest in a wide variety of construction projects. The need for access to petroleum deposits and reserves and transportation of those deposits to processing plants has been another factor in the world's demand for trenchless construction equipment.

As a result of the world's increasing need for trenchless construction methods, HDD technology has greatly improved. Contractors and HDD manufacturers have successfully developed more accurate and efficient trenchless construction equipment, and they are now shifting their focus to the education of municipal engineers as to the benefits of this new technology. Advances in contractors' technical expertise, as well as product improvements, have opened up new markets for trenchless construction in the various utility markets. Natural gas utilities continue to be a very strong market for trenchless construction equipment, and cable installation has begun to make a comeback with the "last mile" connections of fiber to homes and businesses. The resurgence of FTTH (Fiber-To-The-Home) in the various RBOC's (Regional Bell Operating Companies) short-term plans has led many in the underground construction industry to believe that the telecom segment of the market will grow for the first time in several years.

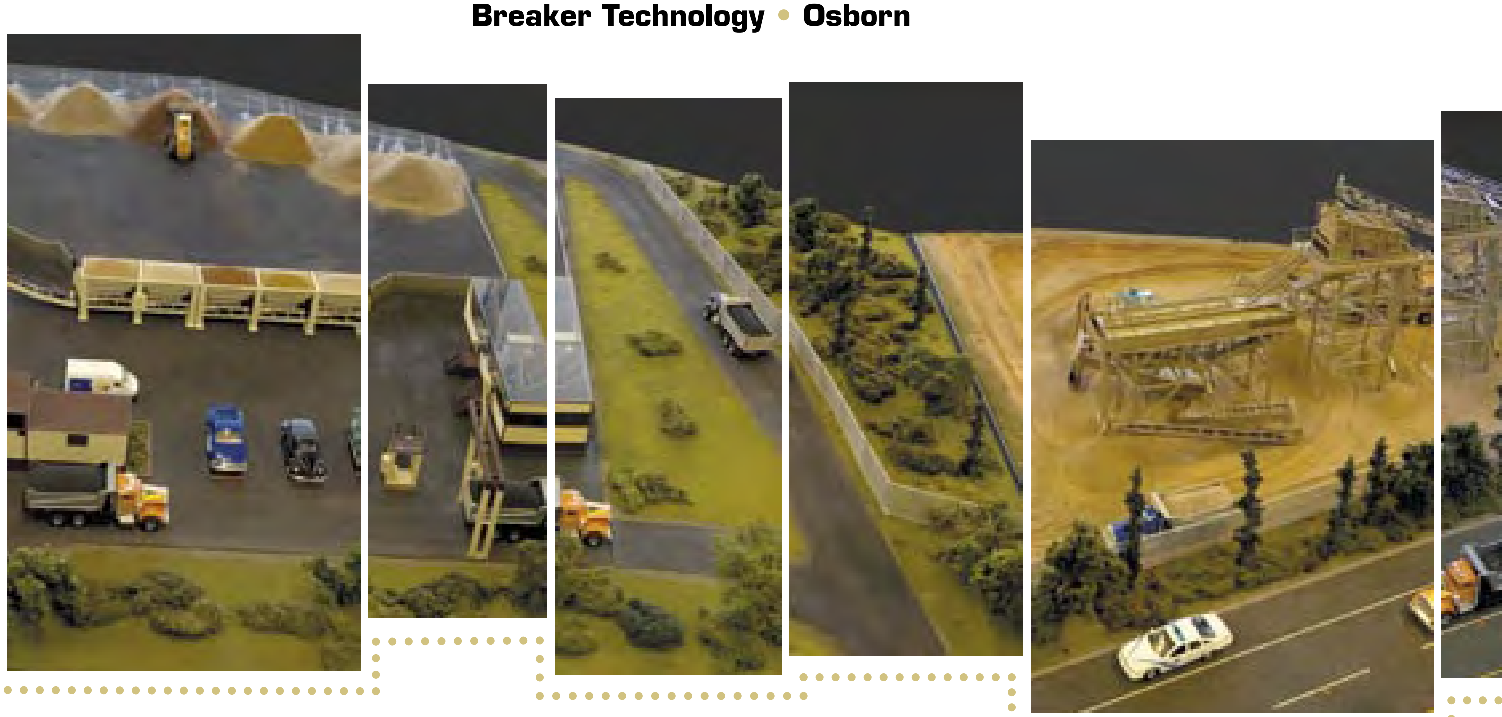
Wholesale shipments of trenchless construction equipment for 2004 surpassed the totals for all of 2003 at a growth rate of 156%. As manufacturers continue to innovate and provide equipment for these special purpose applications, the contractors and customers are responding by more aggressively using these methods of installation. The market for trenchless construction equipment is moving in a very positive direction. Trenchless technology manufacturers are experiencing steady interest and positive sales trends from contractors. The mounting U.S. and international needs for infrastructure installation and replacement indicate continuing growth in the trenchless construction market, a market that American Augers and Astec Industries, Inc. will continue to support with equipment technology.





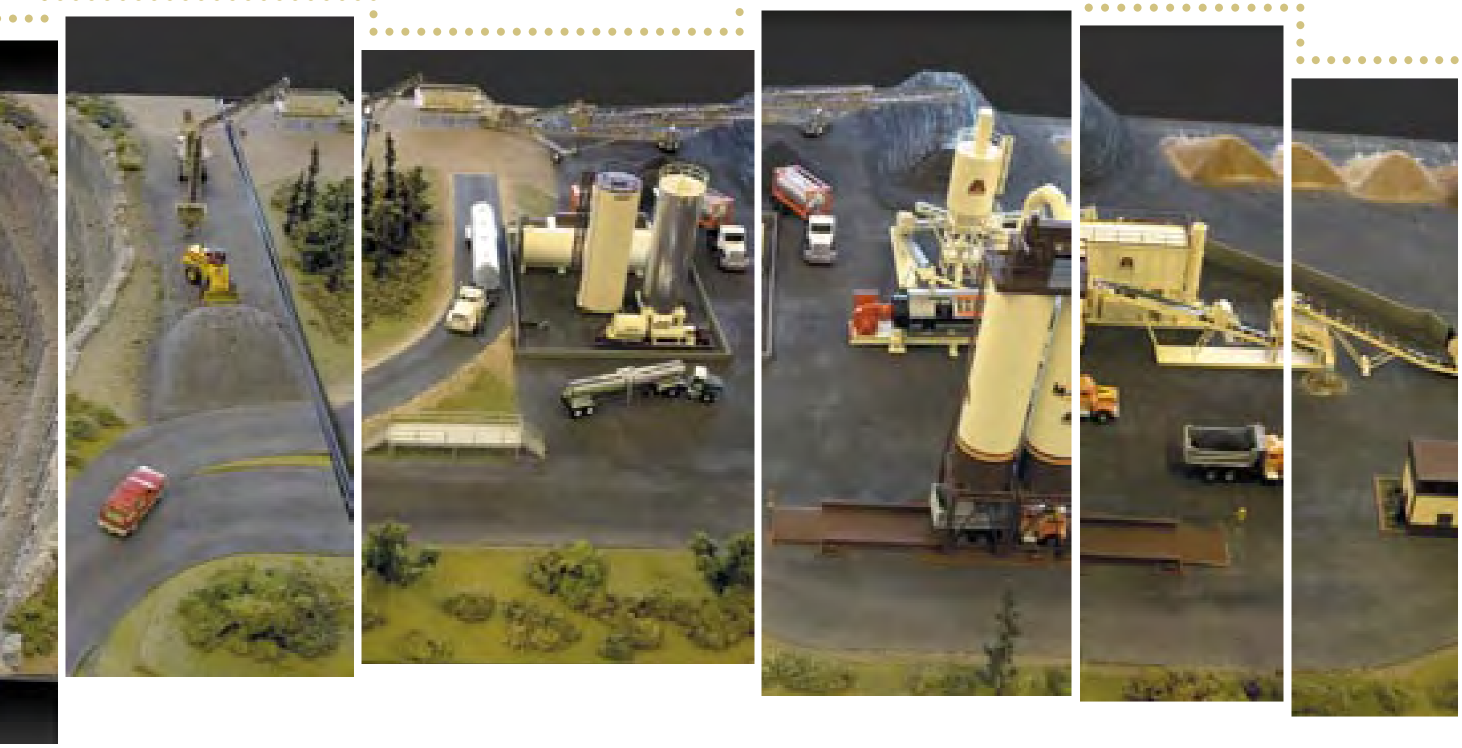
AGGREGATE AND MINING GROUP

Johnson Crushers • Kolberg-Pioneer • Telsmith • Astec Mobile Screens
Breaker Technology • Osborn



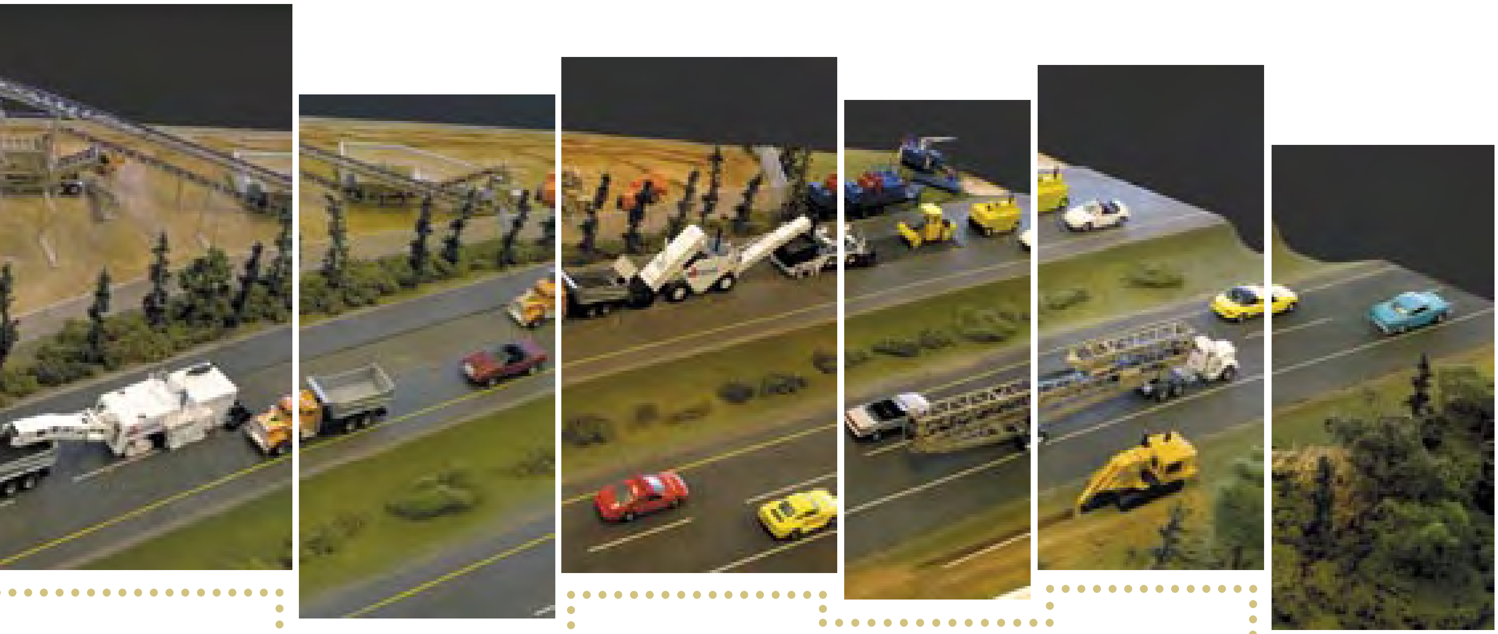
MOBILE ASPHALT PAVING GROUP

Roadtec • Carlson



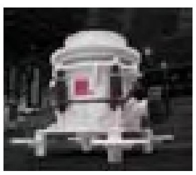
ASPHALT GROUP

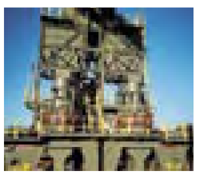
Astec • Heatec • CEI Enterprises



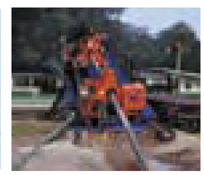
UNDERGROUND GROUP

Astec Underground • Trencor • American Augers

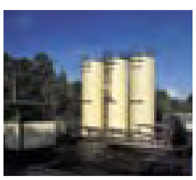








CONTRIBUTING TO THE GROWTH OF OUR ECONOMY




Astec Mobile Screens, Inc.

www.astecmobilescreen.com

Portable Screening Plants

Stationary Screening Plants

High Frequency & Conventional Vibrating Screens

In 2004, the name of Production Engineered Products, Inc. (PEP) was changed to Astec Mobile Screens, Inc. to centralize the marketing, development and support of mobile screening operations within the Astec Industries corporation. Astec Mobile Screens will continue to pioneer the PEP brand of high frequency screening plants while absorbing the Kolberg-Pioneer line of mobile screening plants to its product offerings.

Astec Mobile Screens added the Fold 'n Go® 2512KDT and PDF 2618VM, two revolutionary track-mounted screening plants, to their family of products. Offering the first fully detachable feed bin, the patented Fold 'n Go® 2512KDT will allow producers to operate with a feed bin when using a wheel loader/excavator or without a feed bin when processing with a track-mounted crusher for multiple feed angles. The PDF 2618VM, the first track-mounted screening plant with a PEP Vari-Vibe® high frequency screen, offers the highest capacity track-mounted screening plant on the market for chip sizing/fines removal and can be configured with a re-circulating conveyor for material processing with a track crusher. Both products will continue the advancement of an extensive line of screening plant solutions for the crushed stone, recycle, sand and gravel, coal and construction markets.

A. Fold'N Go® 2612D mobile screening plant.
B. STS 2618VM stationary tower structure with feed bin.
C. PDF 2618VM mobile screening plant.
D. Fold'N Go® 2512KDT mobile screening plant.

AGGREGATE AND MINING GROUP

Telsmith, Inc.

www.telsmith.com

Jaw Crushers

Cone Crushers

Horizontal Shaft Impactors

Vibrating Feeders

Vibrating Screens

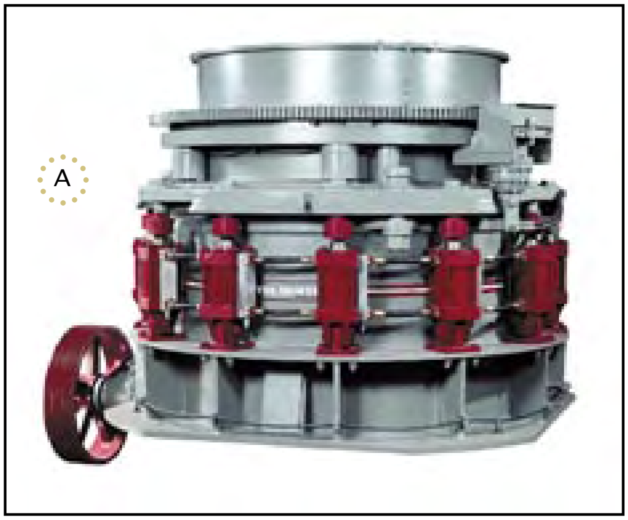
Portable & Stationary Plant Systems

Telsmith is a design, manufacturing, sales and support organization serving the aggregate and mining industries. Its core products include the SBS cone crushers, Iron Giant jaw crushers, HSI impact crushers, vibrating feeders and a wide range of vibrating screens including the ViborKing, Specmaker and ValueKing lines. Telsmith offers these products in pre-assembled, portable and modular plant systems.

Founded in 1906, Telsmith has almost 100 years of experience as an innovative leader, creating and applying new technology to advance stone reduction and sizing processes. In 2004, Telsmith introduced its new portable plants and continued the expansion of the Modular Plant concept, allowing customers to easily erect and relocate their facilities while enjoying features previously restricted to stationary installations. Several modular plants in the U.S. and two new plants in Russia highlight the worldwide interest in this innovative product.

The Telsmith Difference is due to a company-wide dedication to providing superior field support and expertise for our customers.

A. Model 68 SBS cone crusher with "adjust under load" Dynamic Adjustment system.
B. Multiple model SBS cone crushers are consistent top performers, because they incorporate surge bins into modular plant systems.
D. Model 3858 modular primary crushing station incorporates innovative crusher clearing functionality.
E. Model 4448 Iron Giant jaw crusher.
F. Heavy duty, dual shaft scalping screen processes 1000 tph of primary crusher run.
G. Two identical modular support structures, side by side, support highly efficient finish screens.
H. Closed circuit portable plant incorporates a folding conveyor and drop away screen module to provide outstanding mobility and maintenance access.


A


B


C

AGGREGATE AND MINING GROUP

Telsmith, Inc.

Fast Trax® Track Mounted Jaw Crushers

Fast Trax® Track Mounted Horizontal Shaft 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

Kolberg-Pioneer, Inc.

www.kpijci.com

A. Fast Trax® models FT2650 and FT4250 working on a road expansion project.

B. Super Stacker 150 foot extendable radial stacker with Wizard Touch® controls.

C. Fast Pack® mobile plant providing in-quarry processing of multiple specified plants.

Kolberg-Pioneer utilizes a strong nationwide dealer organization to establish a "Single Source" distribution network for its customers. For more than 75 years KPI has been engineering and producing high quality washing, conveying, crushing, screening and track-mounted plant products for the aggregate industry. KPI continued this tradition of excellence in 2004 by introducing eight new models of conveyor and crushing products.

The new SuperStacker® line of conveyors offers extendable reach capacities ranging from 130 – 150 feet in either a 30 or 36 inch width configuration. Together with its new Wizard Touch™ automated control system, the SuperStacker has many applications including producing non-segregated stockpiles as well as a multitude of new applications such as precision bin loading, barge loading and unique stockpiling configurations.

The Fast Trax® series of track-mounted plants saw the introduction of the model FT4240 in both open and closed circuit configurations. These new horizontal shaft impact crushing plants are targeted to meet the needs of the highly mobile customer with crushing on-the-go requirements or those that deal with space limitations through a largely rental based market. To better meet the needs of the recycling and aggregate applications, the FT4240 incorporates a new and innovative two bar rotor design that provides reduction ratio capabilities and production capacities unmatched in the industry.

AGGREGATE AND MINING GROUP

Johnson Crushers, Intl., Inc.

www.kpijci.com

Fast Trax® Track Mounted Horizontal Screens

Fast Pack® Cone Crushing Plants

Fast Pack® Screen Plants

COMBO® Screens

Horizontal Screens

Incline Screens

Kodiak® Roller Bearing Cone Crushers

D. COMBO® screen providing high capacity production of three specified products.
E. Fast Trax® model FT6203 producing on-site aggregate screening.

Johnson Crushers International, designs and manufactures a complete line of cone crushers and screens. Among them, the innovative COMBO® screen combines the best performance characteristics of the incline and horizontal screen designs, while the Kodiak® series of cone crushers offers unmatched reliability and excellent production capabilities in the worst of conditions.

In 2004, JCI introduced two new models of screening products, the FT5162 and FT6203. These new additions to the Fast Trax® series of track-mounted plants make the product line a true "system solution" package to better meet the needs of the recycling and aggregate markets. Together with a Fast Trax® jaw and/or horizontal shaft impactor plant, these products can be configured into a system producing up to seven specific aggregate products at one site.

The Fast Pack® series continues to prove itself as a low cost production plant allowing its owners to realize significant production cost savings. Highly mobile and quick to setup, less than 3 hours, a 500 TPH Fast Pack plant can successfully replace several under-utilized stationary production facilities, converting days of tear down, setup and maintenance into added days of production and profitability.

Breaker Technology, Inc.

www.rockbreaker.com

Breaker Technology, Ltd.

Hydraulic Breakers

Hydraulic & Mechanical Demolition Attachments

Vibratory Compactors

Stationary & Portable Rock Breaker Systems

Mobile Rock Breakers

Underground Mine & 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 its global markets.

With productivity and safety goals of the end user in mind, many new features and benefits have been incorporated into the new VZ Series of hydraulic hammers, the complete line-up of TC Series vibratory compactors, and BTI's enhanced range of rock breaker systems.

Underground mining operations are responding with great enthusiasm to the revolutionary VP Series of vibratory pick scaling head attachments. This new patent pending product brings mechanical scaling to a new level by combining the action of a pry-bar, pick and breaker into a simple robust attachment that increases productivity while reducing operator fatigue and stress to the carrier. Development is underway on a high-reach scaler vehicle to marry with this innovative attachment, allowing BTI to offer a complete and highly effective package.

A. MBS series rockbreakers for crushing plants.
B. TM Series Rockbreakers, offering a wide range of heavy duty, low profile vehicles for underground mining applications.
C. TC Series Vibratory Compactors, one in a series of 6 models satisfying a wide range of companion applications.
D. VP285 Vibratory Pick Scaling attachment combines the action of a pry bar, pick and breaker into a simple robust attachment.
E. VZ75 Hydraulic Hammer, one of a new series of hammers incorportating an energy regenerating system and two-speed operation.

AGGREGATE AND MINING GROUP

Jaw Crushers

Cone Crushers

Double Roll Crushers

Rotary Breakers

Processing & Conveyor Systems

Conveyor Idlers

Vibrating Screens & Feeders

Osborn Engineered Products, SA (Pty) Ltd.

www.osborn.co.za

Osborn's product offering continues to satisfy customer requirements in the aggregate and mining industry. Process equipment including new machines, factory rebuilds, replacement parts, conveyor idlers and project systems are choice selections in applications from "Run-Of-Mine" to finished product.

In 2004, Osborn continued its growth in the primary track-mount market and plans to expand its range to incorporate secondary track-mount systems in 2005.

The replacement parts business secured 36 sizeable parts contracts with customers in Osborn's chosen industry. This has ensured and increased Osborn's preferential parts supplier status and has offered additional advantage in competing with alternative suppliers.

Systems work has maintained its position as an integrator of the overall product range but with a greater degree of focus and selectivity it has been ensured that risk has been reduced and margin enhancement from prior years has been achieved.

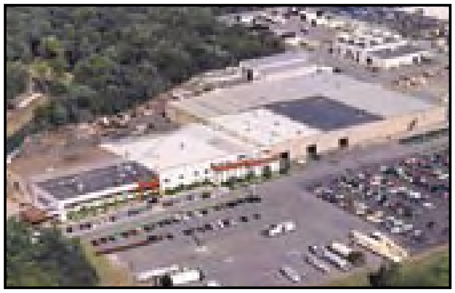
Osborn remains proud of its continued accreditation as an integrated ISO 9001-2000, 14001 and 18000 manufacturer and supplier.

A. Overland conveyor system.
B. IFE excitor driven vibrating screen.
C. Osborn track-mounted unit.
D. Osborn cone crusher.

AGGREGATE AND MINING GROUP

Astec, Inc.

www.astecinc.com



Stationary Hot Mix Asphalt Plants

Portable Hot Mix Asphalt Plants

Relocatable Hot Mix Asphalt Plants

Control Systems

Aggregate Drying Burners

Astec manufactures and markets Hot Mix Asphalt (HMA) 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 2004, Astec launched the Real Time Quality Control concept in hot mix asphalt facility control. Astec's Accu-Swipe™ automatic belt sweeper and Automatic Gradation Unit allow instant analysis of mixes without stopping HMA production. This technology provides plant operators with an accurate analysis of each mix before it leaves the plant.

In addition, Astec restructured its Customer Schools, emphasizing a hands-on approach. The Advanced Customer Schools provide students with first-hand, experiential knowledge of Astec products and trouble-shooting techniques to efficiently run their HMA facilities.

ASPHALT GROUP

A. A portable, self-erecting hot mix asphalt facility located in New Mexico.

B. Skid mounted, relocatable hot mix asphalt facility located in North Carolina.

C. Batch plant facilities are manufactured in a range of capacities.

D. The super-efficient Double Barrel® drum dryer-mixer.

E. Astec's new generation Phoenix® Talon aggregate drying burner.

F. TC 2000 is a personal computer based (soft PLC) control system for process control in a continuous plant, batch plant, or a combination batch/continuous plant.

G. The Accu-Swipe™ belt sampler is a part of the Real Time Quality Control system from Astec.

H. An Automatic Gradation Unit (AGU) allows analysis of mixes without stopping production.

Heatec, Inc.

www.heatec.com

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 & 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.

2004 was a banner year for Heatec storage tanks. The company introduced a new line of asphalt and fuel storage tanks that meet UL code, allowing HMA contractors to store either asphalt or fuel in the same tank. Heatec also produced a new line of hybrid tanks for emulsified asphalt. These tanks have electric heating coils to provide low levels of heat, and they have a mixer to keep ingredients properly blended.

In addition to developing heating and storage systems for HMA producers, Heatec designs and manufactures innovative products to serve customers in a growing range of industries. In 2004, Heatec designed an unusual heater for a major manufacturer of roofing materials. The company continues to develop this type of special application equipment while also making improvements to its core product lines.

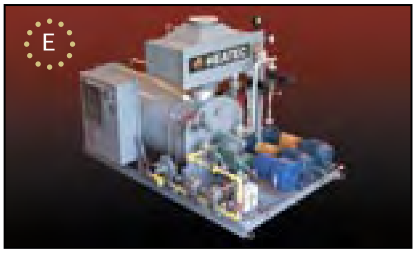
A. A typical HMA plant equipped with virtually all of Heatec's core products for heating and storing asphalt and fuel.

B. Tank farm for emulsified asphalt is fully equipped with Heatec tanks.

C. UL certified asphalt tank with domed head provides greater safeguards against accidental spillage. Can also be used for fuels.

D. Tank with mixer for emulsified asphalt. Has low-level heating.

E. An unusual heater for production of roofing materials. A special convection section boosts thermal efficiency.



ASPHALT GROUP

CEI Enterprises, Inc.

www.ceienterprises.com

Asphalt Cement Tanks

Helical Coil Heaters

Jacketed Firebox Heaters

Fuel Tanks

Water Tanks

Fuel Preheaters

Reaction Tanks

Asphalt Metering Systems

Asphalt Rubber Blending Systems

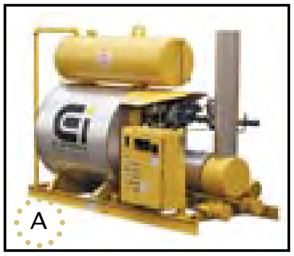
Nomad™ Portable Hot Mix Asphalt Facilities

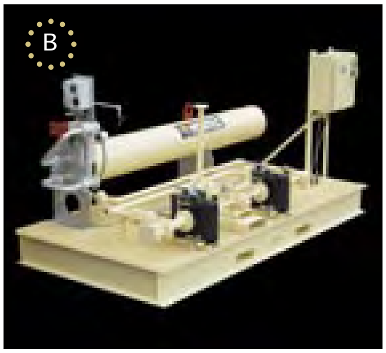
For 35 years CEI has manufactured quality heating and storage products for the asphalt industry. The Nomad™ line of hot mix asphalt facilities was expanded in 2004 with the addition of an 80 ton per hour plant.

The CEI Nomad Model 5.5 is a smaller version of the original CEI Nomad. The Nomad Model 5.5 was designed to be a low-cost plant that meets the needs of contractors who primarily work on smaller projects, such as driveways, parking lots, and secondary roads in rural areas.

In 2004 CEI saw continued increases in the use of waste oil for plant burners and heaters. CEI's preheater allows contractors to use waste oil instead of #2 diesel fuel in the burners. It utilizes a modulating control to precisely maintain fuel at an optimum temperature and viscosity. Since plants use relatively large amounts of fuel, these fuel savings to the contractor are significant.

A. CEI's jacketed firebox heater with outputs ranging from 1.2 to 6.3 million BTU/hr.
B. CEI heavy fuel oil preheaters allow efficient burning of heavy oils and waste oil.
C. Portable split compartment fuel oil/asphalt storage tank.
D. Portable asphalt tank with calibration tank and meter mounted on rear frame extension.
E. Nomad™ portable HMA facilities are available in 80 and 130 ton per hour capacities.





ASPHALT GROUP

Roadtec, Inc.

www.roadtec.com

Cold Planers

Cold-In-Place Recycling Machines

Sidecutter Attachments

Rubber Tired & Track-Driven Asphalt Pavers

Shuttle Buggy® Material Transfer Vehicle

Road Widener Attachments

Roadtec designs, manufactures and markets a complete line of asphalt paving and cold planing equipment. Roadtec continues to be the innovative force behind the asphalt paving industry. Whether it's Roadtec's family of cold planers that are available with three or four tracks in cutting widths from 2' to 13'6", or Roadtec's line of asphalt pavers, which are available in 8' or 10' rubber track or rubber tired versions, Roadtec continues to provide the quality products and service that its customers have come to expect.

One of the core components of Roadtec's commitment to quality paving is the revolutionary line of Shuttle Buggy® material transfer vehicles. The SB-2500C, SB-1500C and MTV-1000C material transfer vehicles give the customer more options to fulfill their ever-increasing pavement smoothness demands.

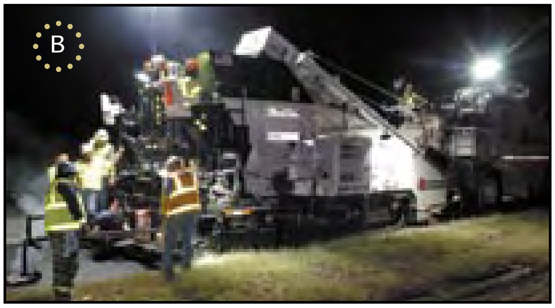
A. The RP150 is an 8' (2.5 m) wide asphalt paving machine with a shorter wheel base, allowing for greater maneuverability without sacrificing performance.

B. The SP-200 Spray Paver is a revolutionary new paver that allows the contractor the ability to spray emulsion or tack directly in front of the hot mix asphalt just before it is laid down and screeded.

C. The third of a new evolution of cold planers by Roadtec, the RX-700 rounds out the mill line that includes the extremely versatile RX-500 and the powerhouse RX-900.

D. The RP 195 is a powerful highway class 10' (30.1m) wide rubber track asphalt paver designed to work in all types of sub-grades and paving applications.

E. The SB-2500C Shuttle Buggy® material transfer vehicle features 25 tons of storage capacity.



MOBILE ASPHALT PAVING GROUP

Carlson Paving Products, Inc.

www.carlsonpavingproducts.com

Screeds for Highway Class & Commercial Pavers

Windrow Pick-Up Machines

Carlson Paving Products has been manufacturing asphalt screeds and screed attachments for over 20 years. Initially started and still located in the Pacific Northwest, Carlson Paving Products, Inc. has continued to develop new and innovative products over the years due in part to customer requests. Manufacturing asphalt screeds for all types and sizes of highway class pavers, Carlson has grown to become a dominate presence in the paver industry.

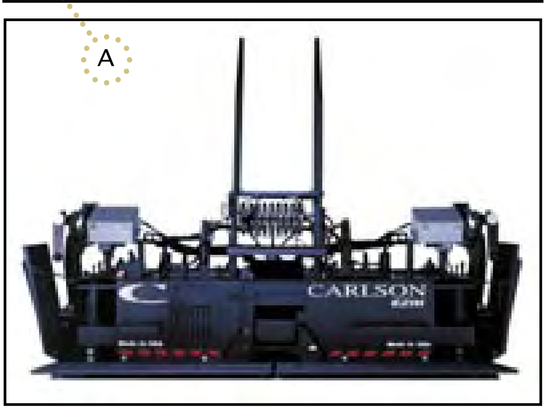
Acquired by Astec Industries in 2000, Carlson has since expanded its product line to include a windrow pick up machine, as well as expanding its current screed designs to include three new types of screed packages for pavers not available in the past.

Carlson Paving Products, Inc. will continue to strive to design and develop products for the asphalt industry that are innovative, user friendly, and functionally superior to any other equipment on the market. Designed with the owner, operator, and mechanic in mind, Carlson's equipment line is available through our extensive line of distributors.

A. The EZ Screed III, with front-mounted hydraulic extensions, gives paving contractors up to 17 feet of paving width with full heat and vibration. Add 5 feet more with heated bolt on extensions for a total of 22 feet.

B. The EZ Screed IV, with its front-mounted hydraulic extensions, gives paving contractors up to 19 feet of paving width with full heat and vibration. Add 6 feet more with heated bolt on extensions for a total of 25 feet.

C. The WP-800 Windrow Pickup Machine transfers hot mix asphalt from windrows laid in front of the paver's hopper. The WP-800 can be adapted for use on almost any paver and can be used with or without a hopper insert unit.



MOBILE ASPHALT PAVING GROUP

Astec Underground, Inc.

Trencor, Inc.

www.astecunderground.com

Trenchers

Auger Boring Machines

Horizontal Directional Drills

Drilling Fluid Mixing, Cleaning & Recycling

Downhole Tooling for Auger Boring & HDD Equipment

American Augers, Inc.

www.americanaugers.com

Astec Underground offers the best value and productivity in the industry by combining application expertise and innovative, high quality American Augers, Trencor, and former Case/Davis products with the proven value of Astec ultility trenchers, compact directional drills, and accessories. Product lines include heavy-duty utility trenchers, plows, directional drills, augers, mud systems, and the Trencor RoadMiner® line.

The company's state-of-the-art research, manfacturing, and training facilities in Loudon, Tennessee and West Salem, Ohio, along with 120+ combined years of design and manufacturing experience, establish Astec Underground as a leading innovator and producer of underground and utility construction equipment.

A. Astec Underground has the broadest line of underground construction equipment in the industry, from the 13HP Astec 60 Walk Behind to the 1600 HP Trencor 3000SM Surface Miner.

B. Trencor heavy-duty trenchers cut a single trench up to 35 feet deep and up to 8 feet wide. They are in service cutting the hardest rock in the harshest conditions all over the world.

C. The Trencor 3000SM was featured on The Learning Channel's Mega-Machines® in 2004.

D. The RT960 trencher provides attachments and tools for many different types of jobs.

E. The new T560 can cut trenches up to 24-inches wide by 8-feet deep.

F. The popular Maxi-Sneaker® C cable plow.

G. The DD-220C self-contained drill is part of an innovative line of Maxi-drills from 140,000 lbs to 1 million lbs of thrust and pullback capacity.

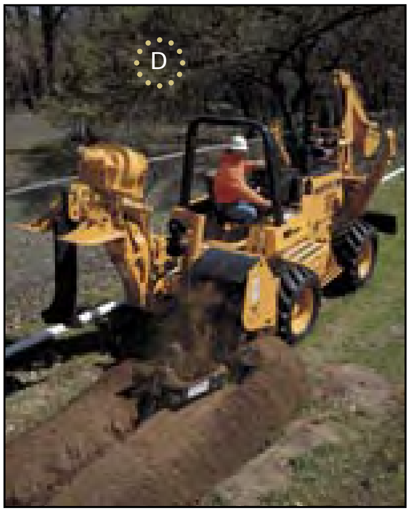
H. The 1660 HDE RoadMiner® is helping to modernize and deepen the MacAlpin locks on the Ohio River in Louisville, Kentucky.

I. The versatile DD-6 horizontal directional drill has power, mobility and functionality.

UNDERGROUND GROUP


B


C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I

ASTEC INDUSTRIES, INC.

BOARD OF DIRECTORS

J. DON BROCK, PH.D

Chairman of the Board
President & CEO
Astec Industries, Inc.

Member of Executive Committee and Technical Committee

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Former President, Cedarapids, Inc.

Member of Audit Committee Compensation Committee and Technical Committee

DANIEL K. FRIERSON

Chairman & CEO, Dixie Group, Inc.

Member of Executive Committee and Nominating Committee

WILLIAM D. GEHL

Chairman of the Board & CEO, Gehl Company

Member of Audit Committee and Compensation Committee

RONALD F. GREEN

Senior Vice President, USEC, Inc.

Member of Audit Committee

ALBERT E. GUTH

Group Vice President, Administration and Secretary

Member of Executive Committee

WILLIAM B. SANSOM

Chairman & CEO
The H.T. Hackney Company

Member of Audit Committee and Nominating Committee

W. NORMAN SMITH

President, Astec, Inc.
Group Vice President, Asphalt

Member of Executive Committee and Technical Committee

ROBERT G. STAFFORD

Group Vice President, Aggregate & Mining

Member of Technical Committee

R. DOUGLAS MOFFAT

President of Moffat Capital, LLC

Member of Compensation Committee and Nominating Committee

CORPORATE EXECUTIVE OFFICERS

J. Don Brock, Ph. D.
Chairman of the Board, President and CEO

J. Neal Ferry
Executive Vice President

Albert E. Guth
Group Vice President, Administration and Secretary

F. McKamy Hall
Vice President, Chief Financial Officer and Treasurer

Thomas R. Campbell
Group Vice President, Mobile Asphalt Paving Group and Underground Group
President, Carlson Paving Products Inc., American Augers, Inc., and Trencor, Inc.

W. Norman Smith
Group Vice President, Asphalt Group and President, Astec, Inc.

Robert G. Stafford
Group Vice President, Aggregate and Mining Group

SUBSIDIARY OFFICERS

Frank D. Cargould
President, Breaker Technology, Ltd. and Breaker Technology, Inc.

Marty L. Winters
VP/General Manager, Carlson Paving Products, Inc.

Mike A. Bremmer
VP/General Manager, CEI Enterprises, Inc.

Richard J. Dorris
President, Heatec, Inc.

Jeffery J. Elliott
President, Johnson Crushers, International, Inc.

Joseph P. Vig
President, Kolberg-Pioneer, Inc.

Tom Kruger
Managing Director, Osborn Engineered Products SA (Pty) Ltd.

Timothy D. Gonigam
President, Astec Mobile Screens, Inc.

Jeffery L. Richmond
President, Roadtec, Inc.

Richard A. Patek
President, Telsmith, Inc.

Thomas R. Campbell
President, American Augers, Inc. and Trencor, Inc.

OTHER INFORMATION

Transfer Agent	Mellon Investor Services, LLC, 85 Challenger Rd., Ridgefield Park, NJ 07660, 800.851.9677 www.melloninvestor.com
Stock Exchange	NASDAQ , National Market - ASTE
Auditors	Grant Thornton LLP, Greensboro, NC
General Council and Litigation	Chambliss, Bahner & Stophel P.C., Chattanooga, TN
Securities Council	Alston & Bird, LLP, Atlanta, GA
Investor Relations	Stephen C. Anderson, Director, 423.553.5934
Corporate Office	Astec Industries, Inc., 1725 Shepherd Rd., Chattanooga, TN 37421 423.899.5898, Fax 423.899.4456, www.astecindustries.com

The form 10-K, as filed with the Securities and Exchange Commission, may be obtained at no cost by any shareholder upon written request to Astec Industries, Inc., attention Investor Relations.
The Annual meeting will be held at 10 a.m. on April 28, 2005 in the training center at Astec, Inc. located at 4101 Jerome Avenue, Chattanooga, TN 37407.

SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands, except as noted*)

	2004	2003	2002	2001	2000
Net sales	$504,554	$402,066	$458,428	$435,869	$497,721
Selling, general and administrative expenses	71,014	65,738	69,340	68,616	66,119
Goodwill impairment	--	16,261	--	--	--
Relocation and start-up expenses	--	--	3,277	--	--
Research and development	8,580	7,669	7,116	6,919	6,259
Income (loss) from operations	23,211	(24,847)	(2,260)	7,398	39,717
Interest expense	3,889	7,284	10,469	9,367	8,652
Senior note termination expense	--	3,837	--	--	--
Income (loss) from continuing operations	12,483	(30,712)	(6,638)	684	22,941
Income from discontinued operations, net of tax	1,164	1,748	1,932	1,309	3,341
Gain on disposal of discontinued operations (net of tax of $5,071)	5,406	--	--	--	--
Net income (loss)	19,053	(28,964)	(4,706)	1,992	26,281
Earnings (loss) per common share*					
Income (loss) from continuing operations:					
Basic	0.63	(1.56)	(0.34)	0.03	1.19
Diluted	0.62	(1.56)	(0.34)	0.03	1.16
Income from discontinued operations:					
Basic	0.33	0.09	0.10	0.07	0.18
Diluted	0.33	0.09	0.10	0.07	0.17
Net income (loss):					
Basic	0.96	(1.47)	(0.24)	0.10	1.37
Diluted	0.95	(1.47)	(0.24)	0.10	1.33
Consolidated Balance Sheet Data					
Working capital	$ 106,489	$ 81,001	$173,224	$161,867	$153,389
Total assets	324,818	319,973	416,979	400,691	398,795
Total short-term debt	11,827	36,685	3,220	2,368	1,986
Long-term debt, less current maturities	25,857	38,696	130,645	127,285	118,511
Shareholders' equity	191,256	167,517	192,647	197,347	194,623
Book value per common share at year-end*	9.52	8.49	9.79	10.07	10.07

SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

(in thousands, except as noted*)

Quarterly Financial Highlights (Unaudited)		**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2004	Net sales	$135,728	$145,937	$111,718	$111,171
	Gross profit	28,832	31,183	22,671	20,385
	Net income	5,452	12,602	731	268
	Earnings (loss) per common share*				
	Income from continuing operations:				
	Basic	0.25	0.32	0.04	0.03
	Diluted	0.24	0.31	0.04	0.03
	Income (loss) from discontinued operations:				
	Basic	0.03	0.32	--	(0.02)
	Diluted	0.03	0.31	--	(0.02)
	Net income:				
	Basic	0.28	0.64	0.04	0.01
	Diluted	0.27	0.62	0.04	0.01
2003	Net sales	$115,087	$103,436	$101,089	$82,454
	Gross profit	18,632	19,000	16,846	10,795
	Net loss	(1,830)	(2,212)	(785)	(24,137)
	Earnings (loss) per common share*				
	Loss from continuing operations:				
	Basic	(0.12)	(0.14)	(0.06)	(1.24)
	Diluted	(0.12)	(0.14)	(0.06)	(1.24)
	Income from discontinued operations:				
	Basic	0.03	0.03	0.02	0.01
	Diluted	0.03	0.03	0.02	0.01
	Net loss:				
	Basic	(0.09)	(0.11)	(0.04)	(1.23)
	Diluted	(0.09)	(0.11)	(0.04)	(1.23)

Certain reclassifications have been made to the 2004 quarterly gross profit amounts, as previously reported in the forms 10-Q to reflect reclassification of intercompany insurance premiums with the Company's captive insurance subsidiary. These reclassifications had no impact on net income.

Common Stock Price *				
2004 High	$16.16	$18.70	$20.14	$20.42
2004 Low	11.50	15.17	15.20	14.04
2003 High	$10.25	$ 9.33	$12.72	$14.08
2003 Low	5.21	5.50	8.35	9.75

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 3,025.

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 39.

Overview

Astec is a leading manufacturer and marketer of road building equipment. The Company's businesses:

- design, engineer, manufacture and market equipment that is used in each phase of road building, from quarrying and crushing the aggregate to testing the mix for application of the road surface and to applying the asphalt;
- manufacture certain equipment and components unrelated to road construction, including trenching, auger boring, directional drilling, industrial heat transfer; and
- manufacture and sell replacement parts for equipment in each of its product lines.

The Company has 13 companies that fall within four reportable operating segments, which include the Asphalt Group, the Aggregate and Mining Group, the Mobile Asphalt Paving Group and the Underground Group. The business units in the Asphalt Group design, manufacture and market a complete line of asphalt plants and related components, heating and heat transfer processing equipment and storage tanks for the asphalt paving and other non-related industries. The business units in the Aggregate and Mining Group design, manufacture and market equipment for the aggregate, metallic mining and recycling industries. The business units in the Mobile Asphalt Paving Group design, manufacture and market asphalt pavers, material transfer vehicles, milling machines and screeds. The business units in the Underground Group design, manufacture and market a complete line of trenching equipment and directional drills for the underground construction market. The Company also has one other category that contains the business units that do not meet the requirements for separate disclosure as an operating segment. The business units in the other category include Astec Insurance Company and Astec Industries, Inc., the parent company.

The Company's financial performance is affected by a number of factors, including the cyclical nature and varying conditions of the markets it serves. Demand in these markets fluctuates in response to overall economic conditions and is particularly sensitive to the amount of public sector spending on infrastructure development, privately funded infrastructure development and changes in the price of crude oil (fuel costs and liquid asphalt). In 2004 steel price increases had a significant impact, which came at a pace more rapid than selling price increases could be installed. Steel for many years has not seen much fluctuation in cost.

Public sector spending at the federal, state and local levels has been 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 May 31, 2005. Even though the funding has only been authorized through May 31, 2005, the amount of the TEA-21 funding through September 2005 has been set at $38.1 billion (including $1.9 billion of carryover from 2004) compared to $33.8 billion in 2004. A new six-year bill is under consideration. As part of the recent budget proposal, the Bush administration is proposing to provide $283.9 billion in guaranteed highway, transit and safety investments through 2009, which is an increase of approximately $28 billion from the Bush Administration's recommendation last year. The Company does not know when the new highway funding bill will be enacted or the amount of funding that will be provided under such bill. The Company believes that TEA-21 significantly influences the purchasing decisions of the Company's customers who are more comfortable making purchasing decisions when the six-year legislation is in place. The federal funding provides approximately 25% of highway, street, roadway and parking construction funding.

The public sector spending described above is needed to fund road, bridge and mass transit improvements. 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 twelve years, would need to be increased along with other measures to generate the funds needed. The study by the Federal Highway Administration shows funding for a six-year bill is needed at the $375 billion level and the Bush Administration proposal is only $284 billion.

In addition to public sector funding, the economies in the markets the Company serves, the price of crude oil and the price of steel affect the Company's financial performance. Economic downturns, like the one experienced from 2001 through 2003, generally result in decreased numbers of private projects (such as subdivisions, shopping centers, office parks or commercial developments), which in turn, decrease purchasing by the Company's customers. Such decreases in purchases cause reductions in sales and increases pricing pressure on the Company's products. Rising interest rates also typically have the effect of negatively impacting customers' attitude toward purchasing equipment. In addition, a significant portion of the Company's revenues relates to the sale of equipment that produces asphalt mix. Asphalt is a byproduct of the refining of oil. A rise in the price of oil increases the cost of providing asphalt, which would likely decrease demand for asphalt, and therefore decrease demand for the Company's products. Rising oil prices can also increase customers' operating costs. The Company does not expect oil prices to change much in 2005. Steel is a major component in the Company's equipment. As steel prices have increased during 2004, the cost of the Company's products and the costs of purchased parts and components also have increased. During 2004, and even with certain sales price increases, the Company was not able to increase its sales prices enough to offset the increases in steel prices. As a result, the Company's gross margin was negatively impacted. The Company does not expect steel prices to change much in 2005. In addition to the factors stated above, many of the Company's markets are highly competitive, and its products compete worldwide with a number of other manufacturers and distributors that produce and sell similar products.

In the United States and internationally, Astec's equipment is marketed directly to customers as well as through dealers. During 2004, approximately 75% to 80% of equipment sold by Astec was sold directly to the end user.

Astec's business includes the sales of replacement parts. During 2004, sales of parts accounted for 23.1% of total revenues.

The company is operated on a very decentralized basis and there is a complete management team for each individual company. Finance, insurance, legal, shareholder relations, corporate accounting and other corporate matters are primarily handled at the corporate level (i.e. Astec Industries, Inc.). The engineering, design, sales, manufacturing and basic accounting functions are all handled at each individual subsidiary. Standard accounting procedures are prescribed and followed in all reporting.

The employees of each subsidiary have the opportunity to earn bonuses in the aggregate up to 10% of the subsidiary's after-tax profit if such subsidiary meets the goals established for it. These goals are based on return on capital employed, cash flow on capital employed and safety. Distribution of these bonuses is to all non-union employees of each operation. The bonuses for presidents and general managers are paid from a separate corporate pool.

Results of Operations; 2004 vs. 2003

The Company experienced net income for 2004 of $19,053,000, or $0.95 per diluted share, compared to a net loss of $28,964,000, or $1.47 per diluted share, in 2003. The weighted average number of common shares outstanding at December 31, 2004 was 20,079,349 compared to 19,671,697 at December 31, 2003.

The results from discontinued operations along with the gain on disposal of discontinued operations (net of tax) are presented in the discontinued operations section below income from continuing operations and are excluded from all other lines on the statement of operations. The Company sold substantially all of the assets and liabilities of Superior Industries of Morris, Inc. on June 30, 2004. The financials for 2003 and 2002 have been restated to reflect discontinued operations for Superior.

Net sales for 2004 were $504,554,000, an increase of $102,488,000, or 25.5%, compared to net sales of $402,066,000 in 2003.

Domestic sales increased from $308,396,000, in 2003, restated to reflect discontinued operations, to $381,938,000 in 2004, an increase of $73,542,000, or 23.8%. 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.

In 2004, international sales increased $28,946,000, or 30.9%, to $122,616,000 compared to 2003 international sales of $93,670,000, restated to reflect discontinued operations. International sales increased the most in the Middle East, followed by Europe, South America, and Asia (excluding China, Japan and Korea). These increases are due primarily to the weaker dollar, improvements in the local economic conditions in each country, and increased efforts of the international sales force. Sales declined by $3,227,000 in the West Indies, followed by Australia with a decline of $2,958,000. The sales decline in the West Indies is a reflection of market inactivity from a sluggish economy. Australia is reflective of the heavy market penetration asphalt plants have made over the last several years.

Parts sales were $116,530,000 in 2004 compared to $97,372,000 in 2003. Approximately 54% of the increase was in the Aggregate Group and approximately 26% in the Asphalt Group. The increases in parts sales was also helped by the addition at October 1, 2004 of the utility trencher line, the increase in sales of competitive parts, and the general improvement in the parts business.

Gross profit increased to $103,072,000, or 20.4% of net sales in 2004, compared to $65,273,000, or 16.2% of net sales in 2003. The primary factors that caused gross profit in 2004 to increase from the gross profit in 2003 include: increases in sales volume of $102,488,000, or 25.5%, profitable new products, increases in parts sales, increases in international sales and domestic sales, and reduction of used equipment writedowns from $4.2 million to $1.8 million. Underutilization of capacity was reduced from $10.2 million to $2.8 million in 2004.

In 2004 selling, general and administrative ("SG&A") expenses increased by $5,276,000 to $71,014,000, or 14.1% of 2004 net sales, from $65,738,000, or 16.4% of net sales in 2003. The increase in SG&A in 2004 compared to 2003 was primarily due to an increase in international sales expense and sales commissions of $2,043,000, health insurance increases of $2,619,000, legal and professional increases of $532,000, and costs of complying with the Sarbanes-Oxley legislation of approximately $916,000.

No goodwill impairment charges were booked in 2004 compared to $16,261,000 in 2003 as a result of evaluations completed under Statement of Financial Accounting Standards No. 142 for each reporting unit.

Research and development expenses increased by $911,000, or 11.9%, from $7,669,000 in 2003 to $8,580,000 in 2004. The increase is related to the development of new products and improvement of current products.

Interest expense for 2004 decreased by $3,395,000, or 46.6%, to $3,889,000 from $7,284,000. This equates to .8% of net sales in 2004 compared to 1.8% of net sales for 2003. The reduced debt level is the primary reason for reduced interest expense. Weighted average interest rates actually increased on the short-term debt from 4.63% to 6.53%.

For 2004, the Company had an overall income tax expense of $13,247,000, or 40.9% of pre-tax income compared to the 2003 benefit of $4,486,000, or 13.4% of the pre-tax loss. The 2004 income tax expense for continued operations was $7,021,000, or 35.8% of pre-tax income from continued operations. The single largest permanent difference that impacted the effective tax rate was $2,438,000 related to the difference between the book and tax basis of the goodwill on the sale of the assets and liabilities of Superior Industries of Morris, Inc. While this permanent difference affected the overall effective tax rate of the Company for 2004, it is entirely attributable to the discontinued operations of Superior Industries of Morris, Inc. In addition, the increase in the valuation allowance from $1,049,000 for 2003 to $1,319,000 for 2004 for certain state tax loss carryforwards moderately increased the overall effective tax rate. Estimated usable state loss carryforwards of $6,101,000 are availiable. The Company also generated significant pre-tax earnings in 2004 that allowed the Company to fully realize the large deferred tax asset related to the federal net operating loss carryforward. The Company expects to utilize the remaining deferred tax asset related to state tax loss carryforwards through the expected generation of future profits, the expected sale of the Grapevine, Texas facility, the increased backlog, and the improvement of the economy. There can be no assurance that these events will occur and no assurance that the remaining deferred tax asset will be fully realized.

The gain on sale of the Superior Industries of Morris, Inc.'s assets and liabilities totalled $10,477,000 and the 2004 income from operations was $2,320,000 prior to the sale.

Earnings per share for 2004 were $0.95 per diluted share compared to a loss of $1.47 per diluted share for 2003.

Earnings from continuing operations for 2004 were $0.62 per diluted share compared to a loss of $1.56 per diluted share for 2003.

The backlog at December 31, 2004 was $93,543,000 compared to $75,880,000 at December 31, 2003, which represents a 23% increase. The backlog for the Asphalt Group, Aggregate and Mining Group and Mobile Asphalt Paving Group increased, while backlog for the Underground Group decreased. The Company is unable to determine whether this backlog effect was experienced by the industry as a whole, and the Company is unable to assess the amount of the impact attributable to the status of TEA-21 legislation renewal. 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 federal and state fuel tax revenue and increased commercial projects.

Asphalt Group: For 2004, this segment had sales of $141,050,000 compared to $119,302,000 for 2003, an increase of $21,748,000, or 18.2%. The segment profits for 2004 were $8,109,000 compared to a loss of $2,712,000 for 2003, for an increase of $10,821,000. The primary reason for the increase in sales is that customers began to act upon their pent-up demand from delayed spending over the past few years. Improved utilization of manufacturing capacity positively impacted gross profits and segment income, but was offset by steel cost increases outstripping sales price increases. The goodwill impairment impact to this segment was $930,000 in 2003.

Aggregate and Mining Group: For 2004, sales for this segment increased $54,236,000, or 35.4%, to $207,397,000 compared to $153,161,000 for 2003. Discontinued operations (Superior Industries of Morris) have been excluded from the segment. The increase in domestic sales was attributable to increases in sales of portable aggregate plants, track-mounted equipment and parts. The portable plants and track-mounted equipment were successfully applied by customers in new markets. The increase in international sales resulted from increased sales efforts, a weakened dollar, and improved economic conditions in certain countries. Profits improved from sales volume, improved manufacturing utilization, increased parts sales, and new products. Such increases were offset partially by increased steel costs. Segment profit for 2004 increased $17,237,000, or 704.1%, to $19,685,000 from $2,448,000 for 2003. Goodwill impairment charges of $1,287,000 were included in 2003.

Mobile Asphalt Paving Group: For 2004, sales in this segment increased $16,237,000, or 21.6%, to $91,390,000 from $75,153,000 in 2003. Both domestic and international sales increased from 2003. Sales increases came relatively evenly across all product lines. An updated milling machine product line and increased paver acceptance both contributed to the sales increase. Segment profit for 2004 increased $6,994,000, or 1248.9%, to $7,554,000 from $560,000 for 2003. Increased volume and reduced writedowns of used equipment were the primary factors that positively impacted the 2004 profit. Goodwill impairment charges of $2,310,000 were included in 2003.

Underground Group: For 2004, sales in this segment increased $11,976,000, or 22.9%, to $64,386,000 from $52,410,000 for 2003, primarily due to increased sales of the large trencher product line. Segment losses for 2004 decreased $20,351,000, or 92.5%, to a loss of $1,653,000 from a loss of $22,004,000 during 2003. The year 2003 included goodwill impairment charges of $11,734,000. The Loudon, Tennessee operation, in its second full year, benefited from getting much of the learning curve behind the subsidiary in 2003. In 2004 the plant utilization improved and the addition of utility trencher parts sales and profits positively impacted the segment results.

Results of Operations; 2003 vs. 2002

The Company sold substantially all of the assets and liabilities of Superior Industries of Morris, Inc. on June 30, 2004. The financials in this comparison of 2003 vs. 2002 have not been restated to reflect this subsequent transaction.

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 was extended until April 30, 2004. The Company believes the primary factor that caused its domestic sales was to be negatively impacted in 2003 continued to be the general slowdown in the economy. Offsetting the decrease in domestic sales in 2003 was 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 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 were $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.

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 was 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 an 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 expected 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 $930,000.

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.

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 Trencor 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.

Liquidity and Capital Resources

Total short-term borrowings, including current maturities of long-term debt, were $11,827,000 at December 31, 2004 compared to $36,685,000 at December 31, 2003. In 2004, the revolver was $8,517,000 compared to $27,997,000 in 2003. In addition, total quarterly payments due on the General Electric Capital

Corporation ("GE Capital") term loan for 2005 are $2,810,000, and outstanding Industrial Development Revenue Bonds accounted for $500,000 of the current maturities of long-term debt at December 31, 2004 and 2003.

Net cash provided by operating activities for the year ended December 31, 2004 was $20,886,000 compared to $7,195,000 for the year ended December 31, 2003. The increase in net cash provided by operating activities in 2004 is primarily due to net operating income of $19,053,000, along with an increase in accounts payable and an increase in other accrued liabilities. Offsetting the increases were an increase in accounts receivables and an increase in inventory.

Cash flows from investing activities for the year ended December 31, 2004 were $14,039,000 compared to $30,421,000 for the year ended December 31, 2003. For 2004, $23,496,000 in proceeds from the disposal of discontinued operations were offset by expenditures of $11,168,000 for property and equipment. The $30,421,000 of cash flows in 2003 were primarily related to the disposition of Astec Financial Services, Inc. assets. The only cash we expect to be provided by investing activities during 2005 will come from the sale of the Grapevine facility, which is expected to take place in the second quarter of 2005.

Cash generated by operating and investing activities including the sale of Superior were used primarily to reduce debt as reflected in the Cash Flow from Financing Activities. Cash used by financing activities totalled $35,420,000.

Long-term debt, less current maturities, decreased to $25,857,000 at December 31, 2004 from $38,696,000 at December 31, 2003. In addtion to our scheduled term loan payments, we also had a payment of $4,500,000 upon the sale of Superior Industries of Morris, Inc., a payment of $383,981 upon the sale of the Covington, Georgia facility and a payment of $6,250,000 related to releasing the Grapevine, Texas facility as term loan security. At December 31, 2004, $16,157,000 was long-term under the GE Capital term loan and $9,700,000 was outstanding under the long-term principal portion of Industrial Revenue Bonds.

At December 31, 2004 the Company was in compliance with the financial covenant requirements of its credit facility.

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).

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 $3,543,000 (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 31, 2004 Osborn Engineered Products SA (Pty) Ltd. had no outstanding loan due under the credit facility and had approximately $315,000 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 2005 are budgeted to be approximately $14,000,000. In addition to normal replacements, approximately $4,000,000 is needed for expected increase in demand for equipment that was previously manufactured in part by the subsidiary sold on June 30, 2004. 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 2004 were $11,168,000 compared to $3,588,000 in 2003. Capital expenditures for 2002 totaled $19,274,000 and 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, 2005. The Company is attempting to sell its Grapevine, Texas facility. The future sale of the Grapevine facility should generate additional funds which will be used to provide working capital or reduce borrowings outstanding under the Company's revolving credit agreement. There can be no assurances on when, or if, the Company will be successful in selling the Grapevine facility. During 2003 and 2004 the Company did not depreciate the Grapevine, Texas facility held for sale. If the company had depreciated these assets, the expense would have been approximately $283,000 and $235,000, for 2003 and 2004, respectively.

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, 2004 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 $377,000 for the year ended December 31, 2004. 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 their local currency. Foreign operations represented 9.1% and 7.6% of total assets at December 31, 2004 and 2003, respectively, and 9.3% and 9.0% of total revenue for 2004 and 2003, respectively. Assuming foreign exchange rates decreased ten percent (10%) from the December 31, 2004 and 2003 levels, the December 31, 2004 and 2003 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, 2004:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More Than 5 Years**
Revolving credit loan	$ 8,517,253	$ 8,517,253	-	-	-
Long-term debt obligations	29,167,105	3,309,941	$ 16,657,164	--	$ 9,200,000
Operating lease obligations	2,590,233	1,050,192	1,196,709	$ 343,332	--
Estimated interest obligations	8,192,000	1,901,000	2,427,000	368,000	3,496,000
Other contractual obligations reflected on the registrant's balance sheet under GAAP	144,950	91,680	53,270	--	--
Total	$ 48,611,541	$ 14,870,066	$ 20,334,143	$ 711,332	$ 12,696,000

The estimated interest obligations were calculated using the actual balance of the revolving credit loan at December 31, 2004 and the expected outstanding balances on the long-term debt obligations, in accordance with payment obligations as detailed in the schedule above. For the revolving credit loan and the term loan, we used the interest rate at December 31, 2004, which was 6.75%. For all other debt obligations, we used the 2004 weighted average interest rate for individual debt obligations.

In addition to the contractual obligations noted in the table above, we also have the following funding commitments.

In 2004 we made contributions of approximately $1,646,000 to our pension plans and $108,000 to our post-retirement benefit plans, for a total of $1,754,000, compared to $521,000 in 2003. We estimate that we will contribute a total of approximately $406,000 to the pension and post-retirement plans during 2005. Our funding policy for all plans is to make the minimum annual contributions required by applicable regulations.

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 $17,567,000 and $21,125,000 at December 31, 2004 and 2003, respectively. These obligations have average remaining terms of three years with minimal risk.

The Company is contingently liable under letters of credit of approximately $16,690,000, with $9.3 million related to Industrial Revenue Bonds and the remainder primarily for performance guarantees to customers or insurance carriers.

Off-balance Sheet Arrangements

As of December 31, 2004 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.

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 records an allowance for doubtful accounts to reflect management’s best estimate of the losses inherent in its accounts receivables as of the balance sheet date. 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 Company does not believe it is reasonably likely that the allowance level will materially change in the future.

Health Self-Insurance Reserve: At seven of twelve manufacturing subsidiaries, the Company is self-insured for health and prescription claims under its Group Health Insurance Plan. These subsidiaries account for approximately seventy percent of the Company’s employees. The Company carries reinsurance coverage to limit its exposure for individual health claims above certain limits. A major insurance company administers health claims and a major pharmacy benefits manager administers prescription medication claims. The Company maintains an insurance reserve for the self-insured health and prescription plans. This reserve includes both unpaid claims and an estimate of claims incurred but not reported, based on historical claims. Historically the reserves have been sufficient to provide for claims payments. Changes in actual claims experience could cause the reserve to change, but the Company does not believe it is reasonably likely that the reserve level will materially change in the future.

The remaining U.S. subsidiaries are covered under fully insured group health plans to which their subsidiaries subscribe. Employees of the Company’s foreign subsidiaries are insured under health plans in accordance with their local governmental requirements. No reserves are necessary for the fully insured health plans.

Workers Compensation and General Liability Self-Insurance: The Company is insuring the retention portion of workers compensation claims and general liability claims by way of a captive insurance company (“the captive”), Astec Insurance Company (“Astec Insurance”). Astec Insurance is incorporated under the laws of the state of Vermont, and a management company specializing in captive insurance management maintains all records of Astec Insurance. The objectives of Astec Insurance are to improve control over and to provide long-term reduction in variability in insurance and retained loss costs; to improve focus on risk reduction with development of a program structure which rewards proactive loss control; and to continue the current claims management process whereby the Company actively participates in the defense and settlement process for claims.

For general liability claims, the captive is liable for the first $1 million per occurrence and $2 million per year in the aggregate. The Company carries general liability, excess liability and umbrella policies for claims in excess of those covered by the captive.

For workers compensation claims, the captive is liable for the first $350,000 per occurrence and $4 million per year in the aggregate. The Company utilizes a major insurance company for workers compensation claims administration.

The financial statements of the captive are consolidated into the financials of the Company. The reserves for claims and potential claims related to general liability and workers compensation under the captive are included in Accrued Loss Reserves on the consolidated balance sheets. The reserves are estimated based on the Company’s evaluation of the type and severity of individual claims and historical information, primarily its own claims experience, along with assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change in the future. However, the Company does not believe it is reasonably likely that the reserve level will materially change in the future.

Product Warranty Reserve: The Company accrues for the estimated cost of product warranties at the time revenue is recognized. We evaluate our warranty obligations by product line or model based on historical warranty claims experience. For machines, our standard product warranty terms generally include post-sales support and repairs of products at no additional charge for a specified period of time or up to a specified number of hours of operation. For parts from our component suppliers, we rely on the original manufactures warranty that accompanies those parts and make no additional provision for warranty claims. Generally, our fabricated parts are not covered by specific warranty terms. Although failure of fabricated parts due to material or workmanship is rare, if it occurs, our policy is to replace fabricated parts at no additional charge. We make no provision for warranty claims for fabricated parts sold.

While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our estimated warranty obligation is based upon warranty terms, product failure rates, repair costs and current period machine shipments. If actual product failure rates, repair costs, service delivery costs or post-sales support costs differ from our estimates, revisions to the estimated warranty liability would be required. Warranty periods for machines generally range from six months to one year or up to a specific number of hours of operation.

Revenue Recognition: Revenue is generally recognized on sales at the point in time when persuasive evidence of an arrangement exists, the price is fixed and determinable, the product has been shipped and there is reasonable assurance of collection of the sales proceeds. The Company generally obtains purchase authorizations from its customers for a specified amount of product at a specified price with specified delivery terms. 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. 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. In accordance with SAB 104, revenue is recorded on such contracts upon the customer’s assumption of title and all risk of ownership and when collectibility is reasonably assured. In addition, there must be a fixed schedule of delivery of the goods consistent with the customer’s business practices, the Company must not have retained any specific performance obligations such that the earnings process is not complete and the goods must have been segregated from the Company’s inventory. 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.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, which addresses consolidation by business enterprises of variable interest entities ("VIEs") either (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, a modification to FIN 46 was issued ("FIN46R") which delayed the effective date until no later than fiscal periods ending after March 31, 2004 and provided additional technical clarifications to implementation issues. The Company does not currently have any variable interest entities as defined in FIN46R. The adoption of this statement did not have any impact on its consolidated financial statements.

The Company's two post-retirement medical insurance plans, which cover the employees of its Kolberg-Pioneer, Inc. and Telsmith, Inc. subsidiaries, 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 May 2004, the FASB issued FSP No. 106-2 ("FSP 106-2"), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. FSP 106-2 supersedes FSP 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, and provides authoritative guidance on accounting for the federal subsidy specified in the Act. The Act provides for a federal subsidy equal to 28% of certain prescription drug claims for sponsors of retiree health care plans with drug benefits that are at least actuarially equivalent to those to be offered under Medicare Part D, beginning in 2006. The Company has been unable to conclude whether the prescription drug benefits provided under its plans are actuarially equivalent to the prescription drug benefits offered under Medicare Part D. Therefore 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 2004 as allowed under FSP 106-2. When the subsidy becomes available in 2006, the Company does not expect the effect of the subsidy to be material to the financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs—An Amendment of ARB No. 43, Chapter 4* ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company in the first quarter of 2006. The Company is currently evaluating the effect that the adoption of SFAS 151 will have on its consolidated results of operations and financial condition but does not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the third quarter of 2005, beginning July 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R may have a material impact on the Company's consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

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;
- steel prices; and
- condition of the economy.

These forward-looking statements are based largely on management's expectations and 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, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Astec Industries, Inc.:

We have audited the accompanying consolidated balance sheet of **Astec Industries, Inc.** (a Tennessee corporation) and subsidiaries as of December 31, 2004 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Astec Industries, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have auditied, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Astec Industries, Inc.'s internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 30, 2005 expressed an unqualified opinion.

Grant Thornton LLP

Greensboro, North Carolina
March 30, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Astec Industries, Inc.

We have audited the accompanying consolidated balance sheet of Astec Industries, Inc. and subsidiaries as of December 31, 2003 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period then ended. 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (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 audit provides 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 as of December 31, 2003, and the results of their operations and their cash flows for each of the two years in the period then ended, in conformity with U.S. generally accepted accounting principles.

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.

Ernst + Young LLP

Chattanooga, Tennessee
February 25, 2004,
except for Note B, as to which the date is
March 4, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Astec Industries, Inc.:

We have audited management's assessment, included in the accompanying Management Assessment Report, that **Astec Industries, Inc.** (a Tennessee Corporation) maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Astec Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Astec Industries, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Astec Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Astec Industries, Inc. as of December 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended and our report dated March 30, 2005, expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

Greensboro, North Carolina
March 30, 2005

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 8,348,693	$ 8,751,100
Trade receivables less allowance for doubtful accounts of $2,093,000 in 2004 and $1,752,000 in 2003	44,215,440	44,749,274
Notes and other receivables	1,073,073	1,268,855
Inventories	126,970,127	110,233,695
Prepaid expenses	8,693,515	9,236,731
Deferred income tax assets	8,498,317	8,904,801
Other current assets	685,274	24,531
Total current assets	198,484,439	183,168,987
Property and equipment, net	96,526,158	105,181,753
Other assets:		
Goodwill	19,125,570	20,887,084
Finance receivables	904,950	581,869
Notes receivable	169,655	39,405
Assets held for sale	4,885,713	5,751,375
Other	4,721,482	4,362,555
Total other assets	29,807,370	31,622,288
Total assets	$ 324,817,967	$ 319,973,028
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit loan	$ 8,517,253	$ 27,996,898
Current maturities of long-term debt	3,309,941	8,688,521
Accounts payable	35,450,855	27,972,405
Customer deposits	10,414,702	9,910,443
Accrued product warranty	4,788,558	3,612,930
Accrued payroll and related liabilities	2,360,841	2,124,494
Accrued loss reserves	7,491,992	7,110,300
Other accrued liabilities	19,661,741	14,751,893
Total current liabilities	91,995,883	102,167,884
Long-term debt, less current maturities	25,857,163	38,696,191
Deferred income tax liabilities	7,432,458	2,895,336
Accrued retirement benefit costs	4,828,093	5,865,368
Other	2,873,397	2,341,362
Total liabilities	132,986,994	151,966,141
Minority interest	575,184	489,664
Commitments and contingencies Notes 8, 9, 13 and 19	--	--
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 - 19,987,503 in 2004 and 19,738,046 in 2003	3,997,501	3,947,609
Additional paid-in capital	55,955,647	52,988,951
Accumulated other comprehensive income	3,014,119	1,113,693
Company shares held by SERP, at cost	(1,690,711)	(1,459,000)
Retained earnings	129,979,233	110,925,970
Total shareholders' equity	191,255,789	167,517,223
Total liabilities and shareholders' equity	$ 324,817,967	$ 319,973,028

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
Net sales	$ 504,553,751	$ 402,066,282	$ 458,427,913
Cost of sales	401,482,127	336,793,057	380,814,284
Gross profit	103,071,624	65,273,225	77,613,629
Selling, general and administrative expenses	71,014,168	65,737,667	69,339,899
Goodwill impairment	--	16,260,975	--
Relocation and start-up expenses	--	--	3,276,559
Amortization of intangible assets	266,457	452,572	141,139
Research and development expenses	8,579,916	7,669,188	7,116,151
Income (loss) from operations	23,211,083	(24,847,177)	(2,260,119)
Other income (expense)			
Interest expense	(3,888,758)	(7,283,898)	(10,469,266)
Senior note termination expense	--	(3,836,975)	--
Interest income	332,997	750,618	1,632,294
Other income (expense) - net	(40,528)	(933,435)	965,921
Income (loss) from continuing operations before income taxes and minority interest	19,614,794	(36,150,867)	(10,131,170)
Income taxes on continuing operations	(7,020,802)	5,472,400	3,585,312
Income (loss) from continuing operations before minority interest	12,593,992	(30,678,467)	(6,545,858)
Minority interest	111,260	33,413	92,211
Income (loss) from continuing operations	12,482,732	(30,711,880)	(6,638,069)
Income from discontinued operations	2,319,711	2,733,859	3,006,189
Income taxes on discontinued operations	(1,155,404)	(985,984)	(1,074,046)
Gain on disposal of discontinued operations (net of tax of $5,070,836)	5,406,224	--	--
Net income (loss)	$ 19,053,263	$ (28,964,005)	$ (4,705,926)
Earnings (Loss) per Common Share			
Income (loss) from continuing operations:			
Basic	$ 0.63	$ (1.56)	$ (0.34)
Diluted	0.62	(1.56)	(0.34)
Income from discontinued operations:			
Basic	0.33	0.09	0.10
Diluted	0.33	0.09	0.10
Net income (loss):			
Basic	0.96	(1.47)	(0.24)
Diluted	0.95	(1.47)	(0.24)
Weighted average number of common shares outstanding:			
Basic	19,740,699	19,671,697	19,638,103
Diluted	20,079,349	19,671,697	19,638,103

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
Cash Flows from Operating Activities			
Net income (loss)	$ 19,053,263	$ (28,964,005)	$ (4,705,926)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,853,013	12,673,660	15,070,442
Amortization	266,457	452,572	141,139
Provision for doubtful accounts	592,544	312,021	1,168,447
Provision for inventory reserves	3,426,958	5,304,370	3,104,411
Provision for warranty	8,586,480	7,599,745	8,840,731
Deferred income tax provision (benefit)	4,943,606	(5,508,648)	(610,269)
Gain on disposal of discontinued operations, net of tax	(5,406,224)	--	--
(Gain) loss on disposition of fixed assets	450,081	(1,034,489)	(162,721)
Gain on sale of equipment on operating lease	--	(534,325)	(708,046)
Gain on sale of finance receivables	--	(18,000)	(342,063)
Goodwill impairment	--	16,260,975	--
Minority interest in losses (earnings) of subsidiary	(111,260)	136,967	80,403
(Increase) decrease in:			
Receivables	(3,556,365)	6,575,947	3,244,069
Inventories	(21,471,263)	6,291,914	6,527,167
Prepaid expenses	(4,648,422)	(2,752,027)	(1,378,562)
Other assets	(922,253)	(1,347,012)	(2,316,920)
Increase (decrease) in:			
Accounts payable	9,912,335	(6,688,461)	6,536,815
Customer deposits	686,642	3,515,342	(1,886,474)
Accrued product warranty	(7,358,121)	(7,744,036)	(8,535,986)
Refundable income taxes	(386,591)	6,839,098	--
Income taxes payable	(1,620,135)	2,292,637	597,519
Accrued retirement benefit costs	(1,037,275)	--	--
Self insurance loss reserves	381,692	2,014,416	2,275,444
Other accrued liabilities	7,956,482	(8,763,779)	6,592,169
Foreign currency transaction (gain) loss	294,674	280,577	90,651
Net cash provided by operating activities	20,886,318	7,195,459	33,622,440
Cash Flows from Investing Activities			
Proceeds from disposal of discontinued operations, net	23,496,339	--	--
Proceeds from sale of property and equipment	1,511,047	1,660,676	1,238,570
Expenditures for property and equipment	(11,167,772)	(3,588,297)	(19,273,932)
Proceeds from sale of equipment on operating lease	--	6,611,539	16,634,694
Expenditures for equipment on operating lease	--	--	(14,704,868)
Additions to finance receivables	--	(1,043,412)	(40,741,257)
Collections of finance receivables	121,310	18,190,171	20,413,550
Proceeds from sale of finance receivables	--	1,585,484	29,330,175
Additions to notes receivable	(42,663)	(300,800)	(7,228,110)
Repayments on notes receivable	120,719	7,305,714	4,554
Net cash provided (used) by investing activities	14,038,980	30,421,075	(14,326,624)

Includes continuing and discontinued operations.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended December 31, 2004	2003	2002
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	$ 2,754,586	$ 382,014	$ 698,540
Net borrowings (repayments) under revolving credit loans	(19,479,303)	(3,905,306)	5,314,410
Proceeds from sale of minority interest stock	1,533,778	--	--
Cash paid for retirement of stock	(1,817,147)	(70,776)	(87,888)
Principal repayments of industrial bonds, loans and notes payable	(18,180,385)	(95,113,634)	(6,769,101)
Purchase of company shares by Supplemental Executive Retirement Plan	(231,711)	(674,000)	(785,000)
Proceeds from debt and notes payable	--	40,122,943	5,655,642
Net cash provided (used) by financing activities	(35,420,182)	(59,258,759)	4,026,603
Effect of exchange rates on cash	92,477	52,154	348,574
Increase (decrease) in cash and cash equivalents	(402,407)	(21,590,071)	23,670,993
Cash and cash equivalents, beginning of period	8,751,100	30,341,171	6,670,178
Cash and cash equivalents, end of period	$ 8,348,693	$ 8,751,100	$ 30,341,171
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 3,890,711	$ 9,213,232	$ 10,235,731
Income taxes (net of refunds)	$ 9,915,939	$ (6,526,586)	$ (2,955,356)
Tax benefits related to stock options:			
Refundable income taxes	--	--	$ 105,809
Additional paid-in capital	$ (262,002)	$ (71,819)	(105,809)
Income tax payable	262,002	71,819	--
Restructure of note receivable:			
Finance receivables	248,028	--	--
Accounts receivable	(248,028)	--	--
Repossession of rental equipment:			
Inventory	$ 270,000	--	--
Fixed assets	(270,000)	--	--

Includes continuing and discontinued operations.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2004, 2003 and 2002

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Company Shares Held by SERP	Total Shareholders' Equity
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		1,348,045
Unrealized loss on cash flow hedge, net of income taxes of $99,064					(147,715)		(147,715)
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
Purchase 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**
Net income				19,053,263			19,053,263
Other comprehensive income (loss):							
Minimum pension liability adjustment, net of income taxes of $172,434					(281,341)		(281,341)
Foreign currency translation adjustments					1,947,596		1,947,596
Unrealized loss on cash flow hedge net of income taxes of $225,741					234,171		234,171
Comprehensive income							20,953,689
Exercise of stock options, including tax benefit	249,457	49,892	2,966,696				3,016,588
Purchase of Company stock held by SERP						(231,711)	(231,711)
Balance December 31, 2004	**19,987,503**	**$3,997,501**	**$55,955,647**	**$129,979,233**	**$3,014,119**	**$(1,690,711)**	**$191,255,789**

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2004, 2003 and 2002

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, 2004 are as follows:

American Augers, Inc.	Johnson Crushers International, Inc.
Astec, Inc.	Kolberg-Pioneer, Inc.
Astec Insurance Company	Osborn Engineered Products SA (Pty) Ltd. (93% owned)
Breaker Technology, Inc.	Astec Mobile Screens, Inc. (f/k/a Production Engineered Products, Inc.)
Breaker Technology Ltd.	Roadtec, Inc.
Carlson Paving Products, Inc.	Telsmith, Inc.
CEI Enterprises, Inc.	Trencor, Inc. (d/b/a Astec Underground)
Heatec, Inc.	

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

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.

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.

Cash and 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, 2004, concentrations of credit risk with respect to receivables are limited due to the wide variety of customers.

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: airplanes (40 years), 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 is tested for impairment at least annually. Accumulated goodwill amortization was approximately $2,464,000 at December 31, 2004 and 2003.

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 - Revenue is generally recognized on sales at the point in time when persuasive evidence of an arrangement exists, the price is fixed and determinable, the product has been shipped and there is reasonable assurance of collection of the sales proceeds. The Company generally obtains purchase authorizations from its customers for a specified amount of product at a specified price with specified delivery terms. 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. 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. In accordance with SAB 104, revenue is recorded on such contracts upon the customer's assumption of title and all risk of ownership and when collectibility is reasonably assured. In addition, there must be a fixed schedule of delivery of the goods consistent with the customer's business practices, the Company must not have retained any specific performance obligations such that the earnings process is not complete and the goods must have been segregated from the Company's inventory. 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 $2,474,000, $2,088,000 and $2,700,000 in advertising costs during 2004, 2003 and 2002, respectively.

Direct response advertising is capitalized and amortized over its expected period of future benefit. 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 normally 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 $59,000 and $293,000 as of December 31, 2004 and 2003. Amortized advertising expenses related to presentation and attendance at trade shows were $288,000, $1,418,000 and $963,000 for the years ended December 31, 2004, 2003 and 2002.

Income Taxes - Income taxes are based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. The Company periodically assesses the need to establish a valuation allowance against its deferred tax assets to the extent the Company no longer believes it is more likely than not that the tax assets will be fully utilized. The major circumstance that affects the Company's valuation allowance is each subsidiary's ability to utilize its state net operating loss carryforwards. If the subsidiaries that generated the loss carryforwards generate future net income, the valuation allowance will decrease. If these subsidiaries generate future losses, the valuation allowance will increase.

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 2004, 2003 and 2002 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.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the third quarter of 2005, beginning July 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R may have a material impact on the Company's consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

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,		
	2004	2003	2002
Net income (loss), as reported	$ 19,053,263	$ (28,964,005)	$ (4,705,926)
Stock compensation expense under SFAS No. 123, net of taxes	(99,034)	(40,138)	(1,886,735)
Adjusted net income (loss)	$ 18,954,229	$ (29,004,143)	$ (6,592,661)
Basic earnings (loss) per share, as reported	$ 0.96	$ (1.47)	$ (0.24)
Stock compensation expense under SFAS No. 123, net of taxes	(0.01)	--	(0.10)
Adjusted basic earnings (loss) per share	$ 0.95	$ (1.47)	$ (0.34)
Diluted earnings (loss) per share, as reported	$ 0.95	$ (1.47)	$ (0.24)
Stock compensation expense under SFAS No. 123, net of taxes	(0.01)	--	(0.10)
Adjusted diluted earnings (loss) per share	$ 0.94	$ (1.47)	$ (0.34)

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:

	2004 Grants	2003 Grants	2002 Grants
Expected life	7 years	8 years	4 years
Expected volatility	47.8%	47.8%	46.2%
Risk-free interest rate	3.64%	2.94%	2.03%
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 (loss) per share:

	Year Ended December 31, 2004	2003	2002
Numerator:			
Income (loss) from continuing operations	$ 12,482,732	$ (30,711,880)	$ (6,638,069)
Income from discontinued operations	$ 6,570,531	$ 1,747,875	$ 1,932,143
Net income (loss)	$ 19,053,263	$ (28,964,005)	$ (4,705,926)
Denominator:			
Denominator for basic earnings per share	19,740,699	19,671,697	19,638,103
Effect of dilutive securities:			
Employee stock options	310,338	--	--
Supplemental executive retirement plan	28,312	--	--
Denominator for diluted earnings per share	20,079,349	19,671,697	19,638,103
Income (loss) from continuing operations:			
Basic	$ 0.63	$ (1.56)	$ (0.34)
Diluted	$ 0.62	$ (1.56)	$ (0.34)
Income from discontinued operations:			
Basic	$ 0.33	$ 0.09	$ 0.10
Diluted	$ 0.33	$ 0.09	$ 0.10
Net income (loss):			
Basic	$ 0.96	$ (1.47)	$ (0.24)
Diluted	$ 0.95	$ (1.47)	$ (0.24)

For the years ended December 31, 2004, 2003 and 2002 options of approximately 1,621,000, 2,936,000 and 2,417,000, respectively, were antidilutive and were not included in the diluted EPS computation.

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.

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 13 of the consolidated financial statements, as of December 31, 2004 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.

Reclassifications - Certain amounts for 2003 and 2002 have been reclassified to conform with the 2004 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 produced the current line of eight Case trenchers, three HDDs, HDD fluid-mixing systems and downhole tools, and also dedicated selected models of Trencor trenchers and American Augers HDDs, which were distributed through the Case dealer networks. As part of the agreement, the Company also had access to Case's worldwide dealer networks and access to Case's purchasing power for these product lines through its supply base through September 30, 2004. 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

3. Inventories

Inventories consisted of the following:

	December 31, 2004	December 31, 2003
Raw materials and parts	$ 58,065,794	$ 46,309,853
Work-in-process	28,772,979	26,112,548
Finished goods	28,868,705	21,053,427
Used equipment	11,262,649	16,757,867
Total	$ 126,970,127	$ 110,233,695

4. Discontinued Operations

On June 30, 2004, the Company completed the sale and transfer of substantially all of the assets and substantially all of the liabilities of Superior Industries of Morris, Inc. (Superior). Superior was part of the Company's Aggregate and Mining Group.

The adjusted sales price at the closing date was $23,600,000. The pre-tax and after-tax gain recognized on the sale in 2004 were $10,477,000 and $5,406,000, respectively.

For 2004, 2003, and 2002, Superior's revenues were $15,841,000, $24,547,000 and $22,162,000, respectively. The operations of Superior resulted in pre-tax earnings of $2,320,000, $2,734,000 and $3,006,000 and after-tax earnings of $1,164,000, $1,748,000, and $1,932,000 in 2004, 2003, and 2002, respectively.

Superior's operations and the gain on the sale of Superior, net of tax, are presented as discontinued operations in the Statements of Operations, as required by SFAS No. 144. Superior's financial results are included in the income from discontinued operations line and are excluded from all other lines on the statement of operations.

The carrying amounts of the major classes of assets and liabilities disposed on June 30, 2004 were as follows:

	2004
Assets:	
Cash	$ 118,000
Accounts receivable	3,636,000
Inventory	2,736,000
Prepaid and other assets	32,000
Property and equipment	8,154,000
Goodwill	2,438,000
Total assets	17,114,000
Liabilities:	
Accounts payable	3,141,000
Other liabilities	836,000
Total liabilities	3,977,000
Net assets of discontinued operations	$ 13,137,000

As of December 31, 2004 the Company retained on its books prepaid assets of $97,000 and accrued income taxes payable of $1,215,000, and other accrued liabilities of $3,000 that relate to the operations of Superior Industries of Morris, Inc. prior to its disposition.

A portion of the proceeds of the sale was used to pay the outstanding revolving credit facility with GE Capital at June 30, 2004, which totaled approximately $13,000,000. In addition, on June 30, 2004, $4,500,000 of the sale proceeds was used to pay down the GE Capital term loan.

5. 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 be amortized for fiscal years beginning after December 15, 2001 but 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, 2004, 2003 and 2002. 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 requires 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.

As of December 31, 2004, the valuation indicated no impairment of goodwill. As of December 31, 2003, the valuation indicated impairment of goodwill in five reporting units totaling approximately $16,261,000. The Company believes various factors led to the 2003 goodwill impairment. The economic downturn and political uncertainty, both of which 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 in 2003. Goodwill impairment expense of $16,260,975 is included in loss from operations for the year ended December 31, 2003.

The changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2004, December 31, 2003, December 31, 2002, and December 31, 2001 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**	**$36,114,983**
Purchase price adjustments	--	16,926	(38,632)	--	(21,706)
Balance December 31, 2002	**2,086,304**	**18,316,103**	**3,956,391**	**11,734,479**	**36,093,277**
Goodwill impairment	(929,486)	(1,287,010)	(2,310,000)	(11,734,479)	(16,260,975)
Foreign currency translation	--	1,054,782	--	--	1,054,782
Balance December 31, 2003	**1,156,818**	**18,083,875**	**1,646,391**	**--**	**20,887,084**
Sale of subsidiary	--	(2,438,102)	--	--	(2,438,102)
Foreign currency translation	--	676,588	--	--	676,588
Balance December 31, 2004	**$ 1,156,818**	**$16,322,361**	**$ 1,646,391**	**--**	**$19,125,570**

6. Long-lived and 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. For the year ended December 31, 2004, the Company concluded that there had been no significant events that would trigger an impairment review of its other long-lived intangible assets. As the result of impaired goodwill as of December 31, 2003, the other long-lived assets of the Company were reviewed for possible impairment. SFAS 144 requires recognition of impairment losses 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 in 2003, 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 $266,457, $277,796 and $110,236 for 2004, 2003 and 2002, respectively. Other intangible assets, which are included in Other Assets on the accompanying consolidated balance sheets, consisted of the following at December 31, 2004 and 2003:

	Gross Carrying Value	Accumulated Amortization Dec. 31, 2003	Net Carrying Value Dec. 31, 2003	Accumulated Amortization Dec. 31, 2004	Net Carrying Value Dec. 31, 2004	Weighted Avg. Amortization Period
Dealer network and customer base	$ 820,000	$ (122,677)	$ 697,323	$ (200,158)	$ 619,842	10 years
Drawings	820,000	(122,677)	697,323	(200,158)	619,842	10 years
Trademarks	336,000	(124,347)	211,653	(230,173)	105,827	3 years
Patents	24,000	(18,331)	5,669	(24,000)	--	2 years
Total	$ 2,000,000	$ (388,032)	$ 1,611,968	$ (654,489)	$ 1,345,511	9 years

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

2005	$261,000	2008	$155,000
2006	155,000	2009	155,000
2007	155,000		

7. Property and Equipment

Property and equipment consisted of the following:

	December 31, 2004	December 31, 2003
Land, land improvements and buildings	$ 76,698,050	$ 80,019,568
Equipment	111,365,301	112,184,212
Less accumulated depreciation	(91,537,193)	(87,022,027)
Total	96,526,158	105,181,753

Depreciation expense for continuing operations was approximately $10,302,000, $11,531,000 and $13,823,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

8. Leases

The Company leases certain land, buildings and equipment for use in its operations under operating leases that expire periodically through 2009. Total rental expense charged to operations under operating leases was approximately $2,755,000, $3,550,000 and $3,738,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

Minimum rental commitments for all noncancelable operating leases at December 31, 2004 are as follows:

2005	1,050,000
2006	726,000
2007	471,000
2008	270,000
2009	73,000

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 $45,000, $662,000 and $2,859,000 for the years ended December 31, 2004, 2003 and 2002, respectively. At December 31, 2004 the Company did not have outstanding lease receivables and no future minimum rental payments to be received for equipment leased to others.

9. Debt

Debt consisted of the following:

	December 31, 2004	December 31, 2003
Revolving credit loan of $87,500,000 at December 31, 2004 at a variable interest rate (6.75% at December 31, 2004)	$ 8,517,253	$ 27,996,898
Term loan due May 14, 2007 payable in quarterly installments of $702,485 beginning October 1, 2004 at a variable interest rate (6.75% at December 31, 2004)	18,967,104	34,821,429
Industrial Development Revenue Bonds payable in annual installments of $500,000 through 2006 at weekly negotiated interest rates	1,000,000	1,500,000
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
Total debt	37,684,357	75,381,610
Less revolving credit loan	8,517,253	27,996,898
Less current maturities	3,309,941	8,688,521
Total long-term debt less current maturities	$ 25,857,163	$ 38,696,191

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 in the 2003 consolidated statement of operations. 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 new 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.

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 that waived the covenant violation and amended the financial covenants for 2004. The Company was in compliance with the financial covenants under its credit facility at December 31, 2004.

On June 30, 2004, the Company sold virtually all of the net assets of its wholly-owned subsidiary Superior Industries of Morris, Inc. As a result of this sale, the Company was required to make a prepayment on its term loan in the amount of $4,500,000 in accordance with the GE Capital agreement.

On August 11, 2004, the Company entered into an amendment to the credit agreement that provided for a reduction of the quarterly term loan payment upon prepayment of the term loan in the amount of $6,250,000. Subsequently, the Company made the prepayment, resulting in a quarterly term loan payment of approximately $702,000.

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. At December 31, 2004, Breaker Technology Ltd had no outstanding balance under the credit facility and approximately $284,000 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 was $245,000, of which $50,000 is recorded as debt in the accompanying consolidated balance sheet, and $284,000 at December 31, 2004.

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:

2005	$ 3,309,941	2008	--
2006	3,309,941	2009	--
2007	13,347,222	Thereafter	9,200,000

For 2004, the weighted average interest rate on short-term borrowings, which includes current maturities of Industrial Revenue Bonds, was 6.5%

10. Product Warranty Reserves

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, but generally range from six months to one year or up to a specified number of hours of operation. 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.

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

	2004	2003
Reserve balance at beginning of period	$ 3,612,930	$ 3,646,045
Warranty liabilities accrued during the period	8,586,480	7,663,534
Warranty liabilities settled during the period	(7,410,852)	(7,696,649)
Reserve balance at end of period	$ 4,788,558	$ 3,612,930

11. Pension and Post-retirement Benefits

Prior to December 31, 2003, all employees of the Company's Kolberg-Pioneer, Inc. subsidiary were covered by a defined benefit pension plan. After December 31, 2003, all benefit accruals under the plan ceased and no new employees could become participants in the plan. 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 a life insurance plan covering 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. The Company attempts to ensure adequate diversification of the invested assets 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 2004 and 2003 for the Company's three post-retirement benefit plans was $1,228,446 and $1,120,276 for the Telsmith, Inc. Retiree Medical and Life Insurance Plan; $373,301 and $434,830 for the Kolberg-Pioneer, Inc. Retiree Life Insurance Plan and Post-retirement Medical Plan; and $90,745 and $82,909 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		Post-retirement Benefits	
	2004	2003	2004	2003
Change in benefit obligation				
Benefit obligation at beginning of year	$ 9,038,018	$ 9,559,804	$ 1,764,146	$ 1,744,260
Service cost	--	365,724	93,630	122,189
Interest cost	534,445	607,151	85,519	99,155
Amendments	--	--	(57,108)	--
Actuarial (gain) loss	471,308	519,815	(231,313)	(85,038)
Curtailment	--	(1,682,571)	--	--
Benefits paid	(372,610)	(331,905)	(108,644)	(116,420)
Benefit obligation at end of year	9,671,161	9,038,018	1,546,230	1,764,146
Accumulated benefit obligation	9,671,161	9,038,018	--	--
Change in plan assets				
Fair value of plan assets at beginning of year	4,810,665	3,828,387	--	--
Actual return on plan assets	451,834	909,420	--	--
Employer contribution	1,645,671	404,763	--	--
Benefits paid	(372,610)	(331,905)	--	--
Fair value of plan assets at end of year	6,535,560	4,810,665	--	--
Funded status (underfunded)	(3,135,601)	(4,227,353)	(1,546,230)	(1,764,146)
Unrecognized net actuarial (gain) loss	2,303,214	1,849,439	(362,979)	(90,369)
Unrecognized prior service cost	--	--	(51,883)	--
Unrecognized transition obligation	--	--	268,600	216,500
Net amount recognized	(832,387)	(2,377,914)	(1,692,492)	(1,638,015)
Accounts recognized in the consolidated balance sheets				
Accrued retirement benefit costs	(3,135,601)	(4,227,353)	(1,692,492)	(1,638,015)
Accumulated other comprehensive loss	2,303,214	1,849,439	--	--
Net amount recognized	$ (832,387)	$(2,377,914)	$(1,692,492)	$(1,638,015)
Weighted-average assumptions used to determine benefit obligations as of December 31				
Discount rate	5.66%	6.25%	5.66%	6.25%
Expected return on plan assets	9.00%	9.00%	--	--
Rate of compensation increase	--	4.50%	--	--

The measurement date used for all plans was December 31, 2004.

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.

For 2004, the Company's expected long-term rate of return on assets was 9.0%. The 2004 expected long-term rate of return was determined based upon certain assumptions made for future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The Company's pension plan asset allocation as of the measurement date (December 31) and the target asset allocation ranges by asset category were as follows:

	Actual Allocation		2004 Target
Asset Category	2004	2003	Allocation Ranges
Equity securities	64.0%	100%	53 - 73%
Debt securities	30.0%	--	21 - 41%
Money market funds	6.0%	--	0 - 15%
Total	100%	100%	

The weighted average annual assumed rate of increase in per capita health care costs is nine and one-half percent (9.5%) for 2005 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 each year in the health care cost trend rate utilized would have resulted in a $10,000 increase or decrease, respectively, in the service and interest cost components of expense for the year 2004, and a $37,000 increase or decrease, respectively, in the accumulated benefit obligation at December 31, 2004.

Net periodic benefit cost for 2004, 2003 and 2002 included the following components:

	Pension Benefits			Post-retirement Benefits		
	2004	2003	2002	2004	2003	2002
Components of net periodic benefit cost						
Service cost	$ --	$365,724	$387,527	$ 93,630	$122,189	$110,803
Interest cost	534,445	607,151	583,709	85,519	99,155	106,341
Expected return on plan assets	(483,075)	(339,393)	(467,132)	--	--	--
Amortization of prior service cost	--	--	--	(5,225)	--	--
Amortization of transition obligation	--	--	--	33,700	33,700	33,700
Recognized net actuarial (gain) loss	48,774	179,080	86,264	(44,503)	(32,586)	(18,739)
Net periodic benefit cost	$100,144	$812,562	$590,368	$163,121	$222,458	$232,105
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31						
Discount rate	6.25%	6.75%	7.25%	6.25%	6.75%	7.25%
Expected return on plan assets	9.00%	9.00%	9.00%	--	--	--
Rate of compensation increase	--	4.50%	4.50%	--	--	--

The Company expects to contribute approximately $300,000 to the pension plan and approximately $106,000 to the other benefit plans during 2005.

The following estimated future benefit payments are expected to be paid in the years indicated:

	Pension Benefits	Post-retirement Benefits
2005	$ 397,000	$ 200,000
2006	425,000	226,000
2007	427,000	254,000
2008	423,000	213,000
2009	436,000	206,000
2010 - 2014	2,603,000	1,108,000

The Company sponsors a 401(k) 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 $2,155,000 in 2004, $1,931,000 in 2003 and $2,276,000 in 2002.

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 in the form of cash. Under a plan amendment effective November 1, 2004, the participants may self-direct the investment of their apportioned plan assets. The assets of the plan are included in other assets and the related deferred compensation is included in other liabilities of the consolidated balance sheets.

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

	December 31, 2004			December 31, 2003		
	Shares	Cost	Market	Shares	Cost	Market
Company stock	112,634	$ 1,690,711	$ 1,938,432	99,009	$ 1,459,000	$ 1,215,000
Equity securities	82,620	681,792	715,770	75,870	632,000	595,000
Total	195,254	$ 2,372,503	$ 2,654,202	174,879	$ 2,091,000	$ 1,810,000

The Company's two post-retirement medical 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 May 2004, the FASB issued FSP No. 106-2 ("FSP 106-2"), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. FSP 106-2 supersedes FSP 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, and provides authoritative guidance on accounting for the federal subsidy specified in the Act. The Act provides for a federal subsidy equal to 28% of certain prescription drug claims for sponsors of retiree health care plans with drug benefits that are at least actuarially equivalent to those to be offered under Medicare Part D, beginning in 2006. The Company has been unable to conclude whether the prescription drug benefits provided under its plans are actuarially equivalent to the prescription drug benefits offered under Medicare Part D. Therefore, 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 2004 as allowed under FSP 106-2. When the subsidy becomes available in 2006, the Company does not expect the effect of the subsidy to be material to the financial statements.

12. Income Taxes

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

	Year Ended December 31,		
	2004	**2003**	**2002**
United States	$ 29,023,551	$ (34,295,452)	$ (9,185,974)
Foreign	3,388,014	878,444	2,060,993
Income (loss) before income taxes	$ 32,411,565	$ (33,417,008)	$ (7,124,981)

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

	Year Ended December 31,		
	2004	**2003**	**2002**
Current provision (benefit)	$ 8,303,436	$ 1,022,232	$ (3,551,979)
Deferred provision (benefit)	4,943,606	(5,508,648)	1,040,713
Total provision (benefit) for income taxes	$ 13,247,042	$ (4,486,416)	$ (2,511,266)

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,		
	2004	**2003**	**2002**
Tax at statutory rates	$ 11,343,994	$ (11,361,783)	$ (2,493,743)
Benefit from foreign sales	(347,978)	(190,961)	(265,878)
State taxes, net of federal income tax	866,358	283,920	(208,445)
Non-deductible goodwill disposal/impairment	853,336	5,389,411	--
Other permanent differences	358,634	343,376	456,800
Change in valuation allowance	269,369	1,049,621	--
Other items	(96,671)	--	--
Income tax provision (benefit)	$ 13,247,042	$ (4,486,416)	$ (2,511,266)

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 and adjusted the allowance in 2004 for current year changes in state loss carryforwards. As of December 31, 2004, the Company has used all available federal net operating loss carryforwards.

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

	Year Ended December 31,		
	2004	2003	2002
Deferred tax assets:			
Inventory reserves	$ 3,165,907	$ 3,447,507	$ 2,986,350
Warranty reserves	1,612,319	1,044,347	1,066,751
Bad debt reserves	662,665	671,104	940,535
Federal net operating loss carryforwards	--	4,393,225	--
State tax loss carryforwards	1,665,881	1,324,111	--
Other	4,924,427	6,462,890	7,928,366
Total deferred tax assets	12,031,199	17,343,184	12,922,002
Deferred tax liabilities:			
Property and equipment	8,578,438	9,462,299	11,036,376
Other	1,067,912	821,799	1,384,812
Total deferred tax liabilities	9,646,350	10,284,098	12,421,188
Valuation allowance	(1,318,990)	(1,049,621)	--
Net deferred tax asset	$ 1,065,859	$ 6,009,465	$ 500,814

13. 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 $16,262,000 and for residual value guarantees aggregating approximately $1,305,000 at December 31, 2004, as compared to being contingently liable for customer debt of approximately $19,820,000 and for residual value guarantees aggregating approximately $1,305,000 at December 31, 2003. 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, 2004, guaranteed indebtedness created under the current loan agreement dated May 14, 2003 was $315,000. At December 31, 2004 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.

14. 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 - 171,396, 2) 1998 Long-term Incentive Plan - 2,507,606, 3) Executive Officer Annual Bonus Equity Election Plan - 16,892 and 4) 1998 Non-employee Directors Stock Plan - 24,660.

In addition, under the terms of the 1998 Long-term Incentive Plan, restricted stock awards and unrestricted stock awards may be granted from the plan up to and including a total of 10% of the awards subject to the plan.

Shares of unrestricted stock issued to directors under the plan in payment of an annual retainer for service as a director total 604 shares. These shares are included in issued and outstanding shares of the Company.

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.

A summary of the Company's stock option activity and related information for the years ended December 31, 2004, 2003 and 2002 follows:

The weighted average fair value of options granted whose exercise price was equal to the market price of the

	Year Ended December 31,					
	2004		2003		2002	
	Options	**Weighted Avg. Exercise Price**	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Options outstanding, beginning of year	3,005,657	$ 18.72	3,146,242	$ 18.54	2,622,169	$ 19.61
Options granted at market price	23,189	14.38	8,262	8.69	608,162	14.45
Options granted at above market price	--	--	--	--	6,269	15.95
Options forfeited	65,763	22.27	92,847	19.20	37,618	27.91
Options exercised	242,529	11.36	56,000	6.82	52,740	9.88
Options outstanding, end of year	2,720,554	$ 19.25	3,005,657	$ 18.72	3,146,242	$ 18.54

stock on the grant date was $7.62, $4.83 and $5.77 for the years ended December 31, 2004, 2003 and 2002, 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 for the year ended December 31, 2002. No options were granted during 2004 or 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, 2004:

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	174,192	2 years	$ 5.06	174,192	$ 5.06
$7.44 - $14.27	453,608	6 years	12.94	443,608	12.92
$14.50 - $19.11	1,036,155	5 years	15.96	1,034,155	15.96
$22.93 - $36.00	1,056,599	4 years	27.52	1,056,599	27.52
Total	2,720,554	5 years	$ 19.25	2,708,554	$ 19.27

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.

15. 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, short- and long-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 the three-month LIBOR.

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. Amortization of OCI through interest expense during 2004 was approximately $460,000. Monthly amortization of OCI through interest expense is expected to approximate $38,000 through April 2005.

16. 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 six 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, and road miners. The principal purchasers of these products are pipeline and utility contractors.

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 2004

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	$141,050,411	$207,397,262	$ 91,390,222	$64,385,668	$ 330,188	$504,553,751
Intersegment revenues	8,225,604	6,806,099	1,531,132	68,310	614,000	17,245,145
Interest expense	16,527	465,059	59,694	16,171	3,331,307	3,888,758
Depreciation and amortization	3,539,385	3,064,374	1,702,429	1,846,189	416,116	10,568,493
Segment profit (loss)	8,109,409	19,684,515	7,554,097	(1,652,769)	(21,204,134)	12,491,118
Segment assets	157,441,648	230,161,294	92,085,043	70,525,756	210,705,197	760,918,938
Capital expenditures	1,003,961	4,954,756	944,942	1,956,424	2,307,689	11,167,772

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	$153,161,143	$75,153,367	$52,409,865	$ 2,040,111	$402,066,282
Intersegment revenues	7,811,843	4,983,454	330,116	(859,552)	1,448,277	13,714,138
Interest expense	68,776	241,666	28,143	323,249	6,622,064	7,283,898
Depreciation and amortization	4,171,523	3,195,391	1,794,981	1,914,772	907,011	11,983,678
Segment profit (loss)	(2,712,020)	2,447,643	559,516	(22,003,677)	(9,415,518)	(31,124,056)
Segment assets	147,701,636	203,153,706	75,506,077	64,368,972	219,387,200	710,117,591
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	$177,198,654	$71,905,997	$39,454,630	$ 3,917,672	$458,427,913
Intersegment revenues	17,908,632	21,741,900	795,998	1,572,296	3,388,390	45,407,216
Interest expense	16,429	578,263	189,293	306,987	9,378,294	10,469,266
Depreciation and amortization	4,469,916	3,190,562	1,935,349	1,684,267	2,684,386	13,964,480
Segment profit (loss)	3,126,983	4,883,827	4,151,862	(8,460,263)	(10,593,368)	(6,890,959)
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

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,		
	2004	2003	2002
Sales:			
Total external sales for reportable segments	$ 504,223,563	$ 400,026,271	$ 454,510,241
Intersegment sales for reportable segments	16,631,145	12,265,861	42,018,826
Other sales	944,188	3,488,388	7,306,062
Elimination of intersegment sales	(17,245,145)	(13,714,238)	(45,407,216)
Total consolidated sales	$ 504,553,751	$ 402,066,282	$ 458,427,913
Profit (loss):			
Total profit (loss) for reportable segments	$ 33,695,252	$ (21,708,538)	$ 3,702,409
Other (loss)	(21,204,134)	(9,415,518)	(10,593,368)
Minority interest in earnings of subsidiary	(111,260)	(33,413)	(92,211)
Elimination of intersegment profit (loss)	102,874	445,589	345,101
Income from discontinued operations, net of tax	1,164,307	1,747,875	1,932,143
Gain on disposal of discontinued operations, net of tax	5,406,224	--	--
Total consolidated net income (loss)	$ 19,053,263	$ (28,964,005)	$ (4,705,926)
Assets:			
Total assets for reportable segments	$ 550,213,741	$ 490,730,391	$ 510,435,111
Other assets	210,705,197	219,387,200	266,039,667
Elimination of intercompany profit in inventory and leased equipment	(155,556)	(258,430)	(732,129)
Elimination of intercompany receivables	(254,374,494)	(201,027,986)	(182,276,729)
Elimination of investment in subsidiaries	(146,869,258)	(149,233,666)	(143,227,984)
Other eliminations	(34,701,663)	(39,624,481)	(33,734,809)
Total consolidated assets	$ 324,817,967	$ 319,973,028	$ 416,503,127
Interest expense:			
Total interest expense for reportable segments	$ 557,451	$ 661,834	$ 1,090,972
Other interest expense	3,331,307	6,622,064	9,378,294
Total consolidated interest expense	$ 3,888,758	$ 7,283,898	$ 10,469,266
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	$ 10,152,377	$ 11,076,667	$ 11,280,094
Other depreciation and amortization	416,116	907,011	2,684,386
Decpreciation from discontinued operations	550,977	1,142,554	1,247,101
Total consolidated depreciation and amortization	$ 11,119,470	$ 13,126,232	$ 15,211,581
Capital expenditures:			
Total capital expenditures for reportable segments	$ 8,860,083	$ 3,550,837	$ 18,676,726
Other capital expenditures	2,307,689	37,460	597,206
Total consolidated capital expenditures (excluding those for equipment leased to others)	$ 11,167,772	$ 3,588,297	$ 19,273,932

International sales by major geographic regions for continuing operations were as follows:

	Year Ended December 31, 2004	2003	2002
Asia	$ 5,735,725	$ 985,384	$ 1,823,596
Southeast Asia	12,150,466	14,905,004	11,377,856
Europe	21,163,574	13,488,906	6,121,596
South America	8,478,688	2,789,929	3,922,806
Canada	15,498,076	12,070,626	13,849,906
Australia	6,106,948	9,064,965	3,836,008
Africa	25,562,020	26,378,309	20,549,157
Central America	9,431,789	5,779,787	9,862,927
Middle East	10,068,121	1,970,874	274,445
West Indies	1,786,012	5,012,990	3,608,888
Other	6,634,436	1,222,775	2,201,244
Total	$ 122,615,855	$ 93,669,549	$ 77,428,429

17. Finance Receivables

Finance receivables are receivables of Astec Financial Services, Inc. Contractual maturities of outstanding receivables at December 31, 2004 were:

Amounts Due In	Notes
2005	$ 190,385
2006	171,949
2007	146,600
2008	146,600
2009	146,600
Thereafter	293,201
Total	$ 1,095,335

The current portion of finance receivables is included in Notes and Other Receivables on the Consolidated Balance Sheets.

Astec Financial Services has not initiated any contracts since 2002. The Company expects to collect the remaining installment loans over their remaining terms.

18. Other Comprehensive Income

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

	Year Ended December 31, 2004	2003	2002
Foreign currency translation adjustment	$ 4,576,255	$ 2,628,659	$ (988,356)
Unrealized loss on cash flow hedge, net of tax	(134,143)	(368,314)	(587,445)
Minimum pension liability adjustment, net of tax	(1,427,993)	(1,146,652)	(1,320,879)
Accumulated other comprehensive income (loss)	$ 3,014,119	$ 1,113,693	$ (2,896,680)

19. Assets Held for Sale

The Trencor, Inc. manufacturing operations formerly located in Grapevine, Texas were relocated to the Loudon, Tennessee facility during the fourth quarter of 2002. The Company is attempting to sell its Grapevine, Texas facility. The Grapevine, Texas facility is currently under contract for sale with a scheduled closing date of April 29, 2005. At the option of the buyer, the closing date may be extended to May 29, 2005 for additional consideration. There can be no assurances when, or if, the current contract will close. If the buyer rescinds the contract after March 30, 2005, the buyer will forfeit the earnest money and any consideration paid for contract extensions.

During 2004, the Company relocated certain equipment previously held for sale at the Grapevine facility to the Loudon, Tennessee facility. The book value of the equipment at the time of transfer was $95,045. For the year ended December 31, 2004, the consolidated statement of operations included $58,678 of depreciation related to this equipment. As of December 31, 2004, the carrying value of equipment, land and building classified on the consolidated balance sheet as assets held for sale equaled $4,885,713. These assets are included in the assets of the Underground segment.

During the third quarter of 2003 the Company terminated manufacturing operations at its Pavement Technology, Inc. facility located in Covington, Georgia. The facility was sold in 2004 for a loss of $2,695. The loss on sale of this asset was included in cost of sales on the consolidated statement of operations and in the segment reporting for the Asphalt Group.

BOARD OF DIRECTORS

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President & CEO
Astec Industries, Inc.

Member of Executive Committee and Technical Committee

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Former President, Cedarapids, Inc.

Member of Audit Committee Compensation Committee and Technical Committee

DANIEL K. FRIERSON

Chairman & CEO, Dixie Group, Inc.

Member of Executive Committee and Nominating Committee

WILLIAM D. GEHL

Chairman of the Board & CEO, Gehl Company

Member of Audit Committee and Compensation Committee

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Senior Vice President, USEC, Inc.

Member of Audit Committee

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Group Vice President, Administration and Secretary

Member of Executive Committee

WILLIAM B. SANSOM

Chairman & CEO
The H.T. Hackney Company

Member of Audit Committee and Nominating Committee

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President, Astec, Inc.
Group Vice President, Asphalt

Member of Executive Committee and Technical Committee

ROBERT G. STAFFORD

Group Vice President, Aggregate & Mining

Member of Technical Committee

R. DOUGLAS MOFFAT

President of Moffat Capital, LLC

Member of Compensation Committee and Nominating Committee

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F. McKamy Hall
Vice President, Chief Financial Officer and Treasurer

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Robert G. Stafford
Group Vice President, Aggregate and Mining Group

SUBSIDIARY OFFICERS

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Marty L. Winters
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Mike A. Bremmer
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President, Heatec, Inc.

Jeffery J. Elliott
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Joseph P. Vig
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Tom Kruger
Managing Director, Osborn Engineered Products SA (Pty) Ltd.

Timothy D. Gonigam
President, Astec Mobile Screens, Inc.

Jeffery L. Richmond
President, Roadtec, Inc.

Richard A. Patek
President, Telsmith, Inc.

Thomas R. Campbell
President, American Augers, Inc. and Trencor, Inc.

OTHER INFORMATION

Transfer Agent	Mellon Investor Services, LLC, 85 Challenger Rd., Ridgefield Park, NJ 07660, 800.851.9677 www.melloninvestor.com
Stock Exchange	NASDAQ , National Market - ASTE
Auditors	Grant Thornton LLP, Greensboro, NC
General Council and Litigation	Chambliss, Bahner & Stophel P.C., Chattanooga, TN
Securities Council	Alston & Bird, LLP, Atlanta, GA
Investor Relations	Stephen C. Anderson, Director, 423.553.5934
Corporate Office	Astec Industries, Inc., 1725 Shepherd Rd., Chattanooga, TN 37421 423.899.5898, Fax 423.899.4456, www.astecindustries.com

The form 10-K, as filed with the Securities and Exchange Commission, may be obtained at no cost by any shareholder upon written request to Astec Industries, Inc., attention Investor Relations.
The Annual meeting will be held in the training center at Astec, Inc. located at 4101 Jerome Avenue, Chattanooga, TN 37407.

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