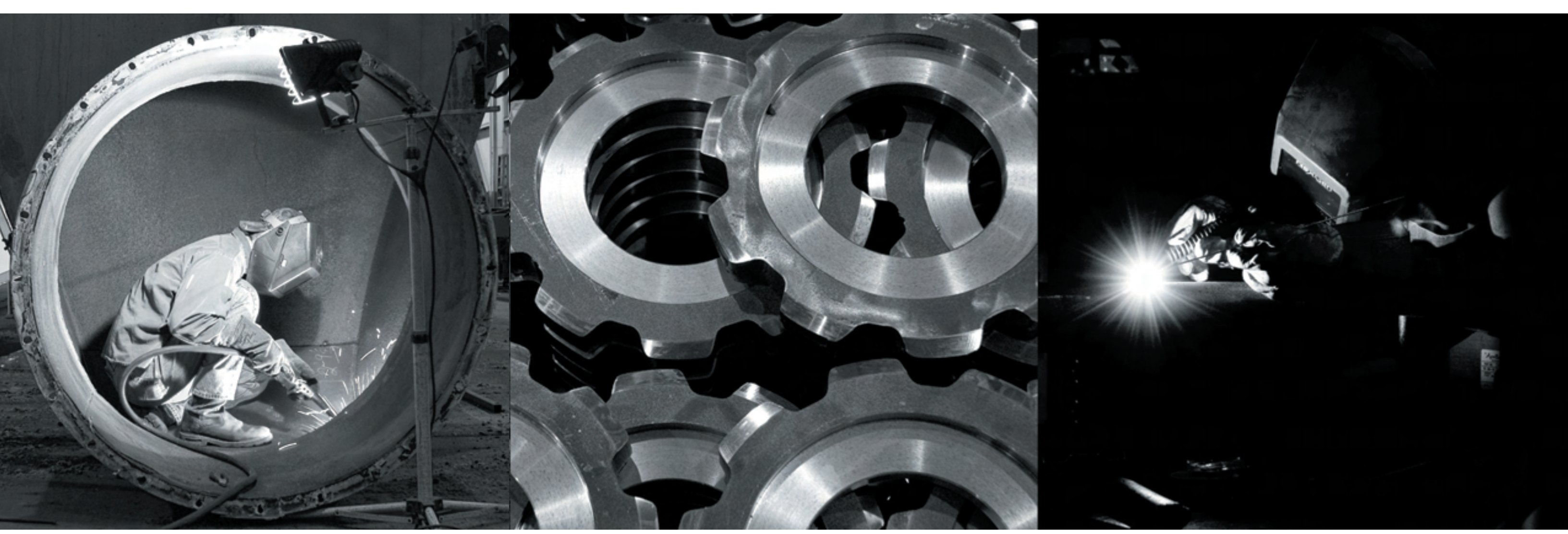
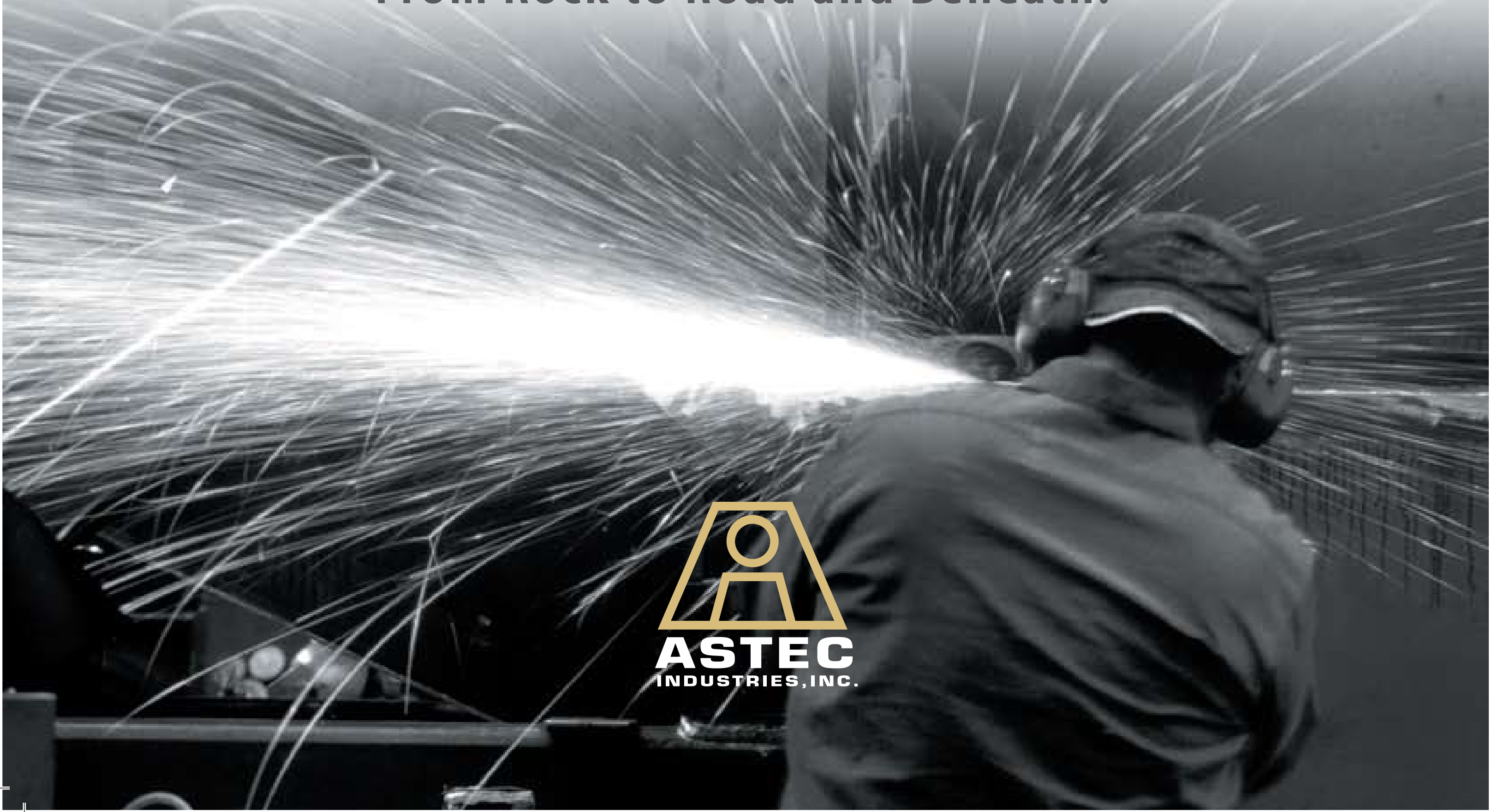
ASTEC
INDUSTRIES, INC.



2005 Annual Report


ASTEC
INDUSTRIES, INC.

financial overview

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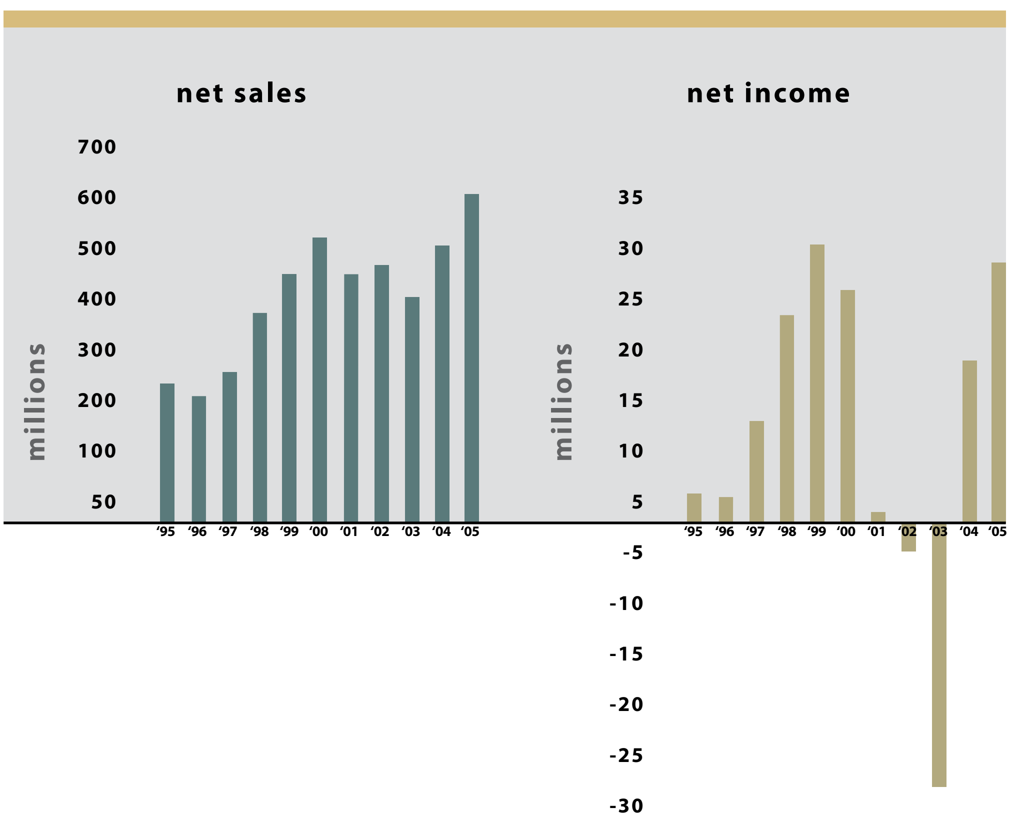
Operating Results In thousands, except noted*	2005	2004	2003	2002	2001
Net sales	$616,068	$504,554	$402,066	$458,428	$435,869
Net income (loss)	28,094	19,053	(28,964)	(4,706)	1,992
Financial Position					
Working capital	$137,981	$106,489	$81,001	$173,224	$161,867
Long-term debt, less current maturities	—	25,857	38,696	130,645	127,285
Shareholders' equity	242,742	191,256	167,517	192,647	197,347
Per Common Share*					
Net income (loss)					
Basic	$1.38	$0.96	($1.47)	($0.24)	$0.10
Diluted	1.34	0.95	(1.47)	(0.24)	0.10
Book value per common share at year end	11.57	9.52	8.49	9.79	10.07
Other Data					
Weighted average number of common shares outstanding					
Basic	20,334	19,741	19,672	19,638	19,442
Diluted	20,977	20,079	19,672	19,638	19,753
Associates*	2,946	2,657	2,547	2,772	2,854



letter to shareholders

As we entered 2005, our objectives were to grow the business, improve margins, manage cash flow and reduce our debt. I am pleased to report that we achieved each of these objectives in 2005; however, due to the continuing rise in component prices, we were unable to improve margins as much as we expected. While our overall performance continued to improve in 2005, we still have not reached the level of performance that we experienced in the late 90's and in early 2000. We are optimistic that these levels will be achievable in 2006 and 2007 provided the economy remains strong and we stay ahead of component price increases through increased pricing and cost reduction initiatives that are in place at the companies. Revenues for 2005 were $616.1 million compared to revenues of $504.6 million in 2004. Net income for the year was $28.1 million compared to net income of $19.1 million in 2004. Net income per diluted share in 2005 was $1.34 compared to $0.95 in 2004. Income from continuing operations was $1.34 per diluted share for 2005 compared to $0.62 per diluted share for 2004 for an increase of $0.72 per diluted share, or an increase of 116.1%.

During 2005, our parts business grew from $118.4 million to $144.2 million. We continue to add sales people and grow our parts business for competitive plants, pavers and other products. We have developed rebuild centers at various locations throughout the country to rebuild equipment for our customers, and we are optimistic that this will be a non-cyclic growth business in the future.

At mid year, Congress finally passed a new six-year highway authorization bill. While this bill was passed in 2005, it is based on a start date of September 30, 2003. Therefore as of October 1, 2005, the bill as presented is entering its third year. This bill gradually increases the highway funding by $1 billion to $1.5 billion per year over the life of the bill. While this should increase revenues for our customers, we anticipate that inflation will prevent the actual asphalt tonnage used for paving or resurfacing highways and roads from increasing significantly. The improvement in the overall economy is helping state budgets and revenues, which allow the states to gradually increase highway spending. The improvement in the overall economy also allows for more private construction, which is a significant and often more profitable part of our customers' businesses. In September 2005, we completed the sale of the Grapevine, Texas property for $13.2 million. The proceeds from the Grapevine sale, stock options exercised, and our improved cash flows from operations allowed us to completely pay off all of our debt by year-end. With the large number of new products that we have introduced over the last three years, we have continued to add volume to our existing businesses. The demand for these new products will require us to begin expansions at certain facilities to specifically increase the production on these products. In 2006 we will be adding 60,000 square feet to our Kolberg-Pioneer, Inc. facility in Yankton, South Dakota to increase the volume of our track-mounted crushing plant and to increase the volume in our highly portable Fast Pack® and SuperStacker Conveyor Systems. We will also be adding 28,500 square feet to our Astec Mobile Screens facility to increase its capacity due to the demand for both wheel and track-mounted screening plants. In Chattanooga, we will be adding 56,000 square feet to the Roadtec, Inc. ("Roadtec") facility and 14,172 square feet to the Astec, Inc. ("Astec") facility. The Roadtec expansion will allow us to improve the throughput of milling machines and to manufacture a new line of soil stabilization equipment. The Astec addition will be for manufacturing our revolutionary new Phoenix Burner that will burn pulverized coal. We believe there will be significant demand for these alternative fuel systems in the face of elevated gas and oil prices.

During 2005, our Astec Underground segment completed the addition of two heavy bays for manufacturing the large, heavy Trencor equipment, absorbed the Case New Holland Trencher parts business, continued to establish new dealers and acquired the American Chain Corporation product line which increases our sales in ground engaging equipment. Also in 2005 American Augers and Astec Underground continued to improve in performance; however, they have yet to reach the potential that we believe is attainable.

We have established an objective to average an internal growth rate of 10% per year. We anticipate that some of our companies will average more and some will average less than the 10% growth rate goal. Also, we anticipate that over the next five years we will likely again experience a cyclical downturn; therefore, in some years it will be necessary for us to achieve more than a 10% growth in revenues and profits and other years less than 10%. We believe these objectives are obtainable without accumulating significant debt by managing the rate of growth and continuing to work diligently to manage our working capital. In addition to our internal growth, we will make justifiable acquisitions, some of which may extend into new, related areas of business.

As we look forward to 2006, we are keenly aware that we live in a new world and our customers are forced to build roads, sewers, water lines, bridges, etc. in the middle of traffic, congestion and under the most severe working conditions. In future years, we anticipate that the majority of the construction work in the United States will be in maintenance and rehabilitation. We must continue to develop equipment to meet the changing needs of our customers. We will continue to develop a steady stream of new products to assist our customers in being more productive and to reduce their cost.

During 2005, we added Product Focus Teams to focus on improving every new and existing product that we manufacture. These cross-functional teams are investigating our product performance, reliability and manufacturing costs. They are looking at ways to improve our products while, if possible, reducing costs to allow us to become more competitive, even in the inflationary environment that exists today.

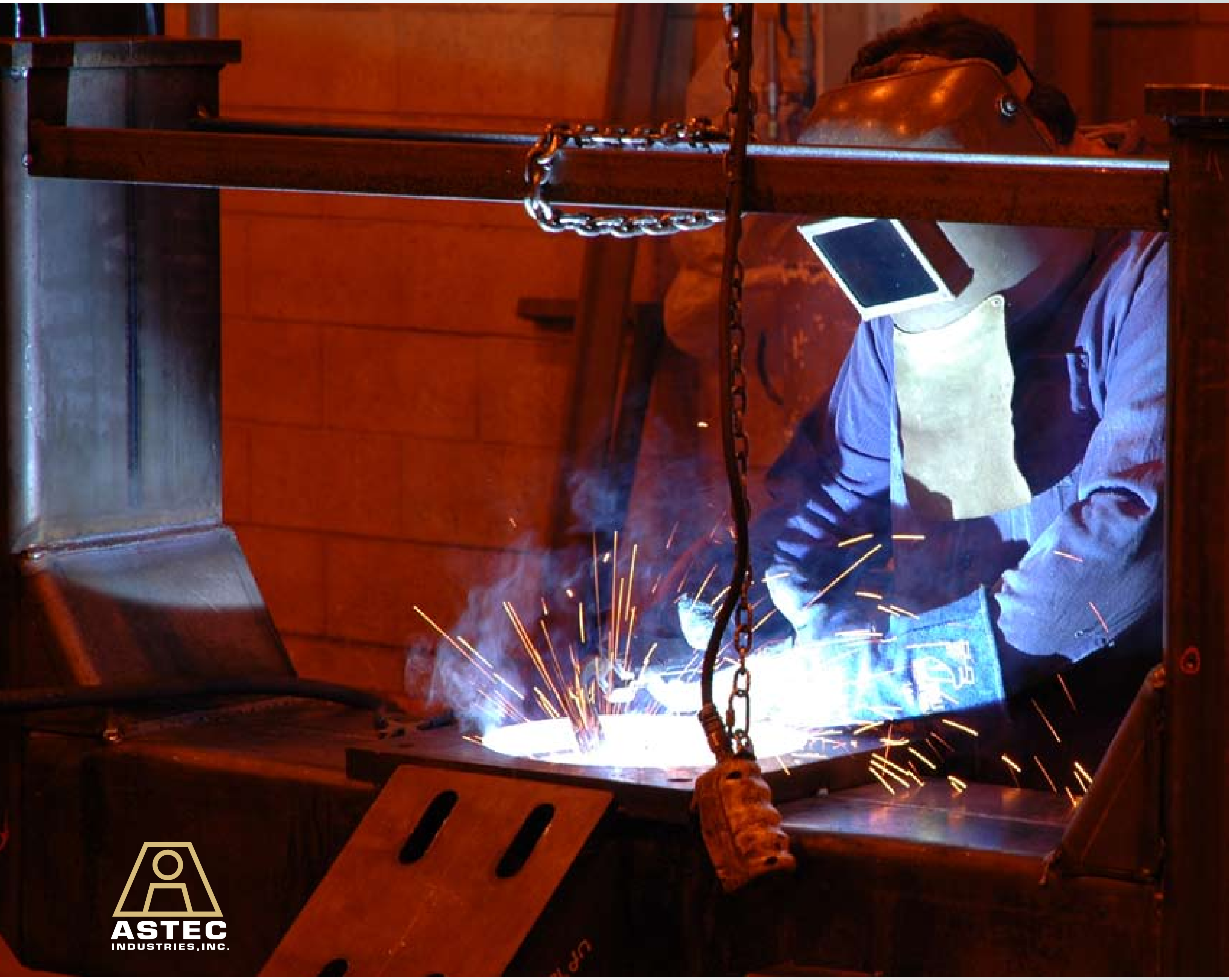
In January 2005, we were pleased that J. Neal Ferry joined our management team as Executive Vice President. Neal brings a wealth of experience in construction machinery. He spent 34 years with Peter Kiewit Sons', Inc., one of the largest contractors in the United States, and he was responsible for acquiring, maintaining and overseeing a $2 billion equipment fleet. Neal has given me great assistance with planning and assisting on a number of our management teams' initiatives. We continue to put more focus on growth and training of future management who will eventually succeed our senior management as they retire and exit the Company.

We are very proud of the progress we made this year and look forward to the continuing improvement in our performance as we execute the above initiatives in 2006. We appreciate the continued dedication of our employees and the loyal support of our shareholders and customers.

Yours very truly,

J. Don Brock

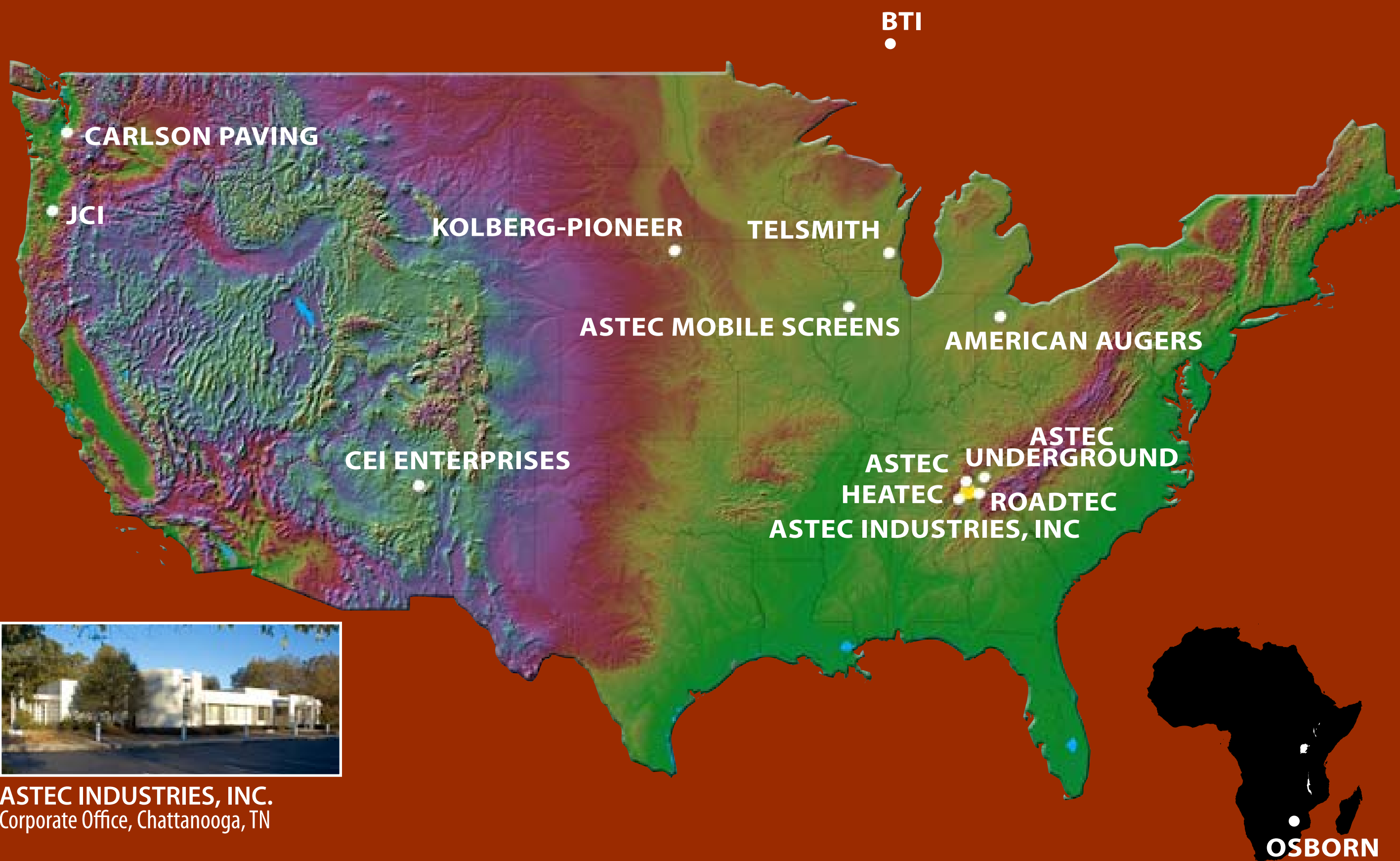
J. Don Brock, Ph.D.
Chairman, President & CEO
Astec Industries, Inc.



mission statement:

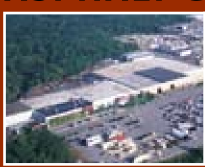
To grow and prosper by designing, manufacturing and selling the most innovative, productive and reliable equipment for building and restoring the world's infrastructure, coupled with unparalled customer service.

ASTEC INDUSTRIES INC.'S FAMILY OF COMPANIES

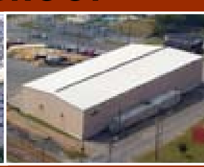


ASTEC INDUSTRIES, INC.
Corporate Office, Chattanooga, TN

ASPHALT GROUP



ASTEC, INC.
Chattanooga, TN

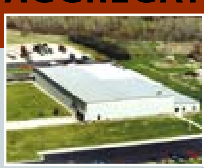


ASTEC, INC.
Rossville, GA

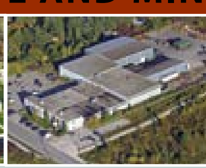
HEATEC, INC
Chattanooga, TN

CEI ENTERPRISES, INC.
Albuquerque, NM

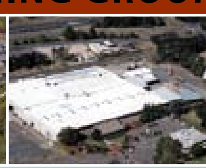
AGGREGATE AND MINING GROUP



ASTEC MOBILE SCREENS, INC.
Sterling, IL



BREAKER TECHNOLOGY, LTD.
Ontario, Canada



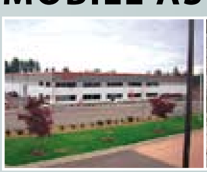
JCI, INC.
Eugene, OR

KOLBERG PIONEER, INC.
Yankton, SD

TELSMITH, INC.
Mequon, WI

OSBORN ENGINEERED PRODUCTS, SA(PTY) LTD.
Johannesburg, South Africa

MOBILE ASPHALT PAVING GROUP

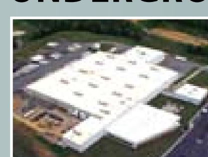


CARLSON PAVING PRODUCTS, INC.
Tacoma, WA

ROADTEC, INC.
Chattanooga, TN

ROADTEC, INC.
Chattanooga, TN

UNDERGROUND GROUP



ASTEC UNDERGROUND, INC.
Loudon, TN

AMERICAN AUGERS, INC.
West Salem, OH

Keeping Up With Today's Roads

J. Don Brock, Ph.D.

From the mid-1950s through the 1980s, the typical road contractor spent most of his time building new roads. Passage of the Federal-Aid Highway Act in 1956 committed the federal government to construct our modern freeway system, and for over 30 years U.S. roadbuilders were busy creating the ribbons of highway that connect us. During those times, huge amounts of hot mix asphalt could be placed ton after ton, mile after mile, uninterrupted and without having to accommodate existing traffic. It's a very different story today. Most of our customers' work today consists of maintaining, rehabilitating and enhancing the existing system. They work in traffic, often at night, and must be much more sophisticated in their planning to meet the demands of the public and of the state departments of transportation. They work with more specialized equipment and place more complicated mixes to create surfaces that perform quieter and last longer. Before many of these mixes can be placed, old surfaces have to be removed. One machine removing, another machine right behind it replacing, equipment to recycle the milled up material ... all coordinated in a way that will get the job done on time and without losing money. Yes, today's roadbuilder is operating in a very different environment than that of the preceding generation, and machines have evolved to help them do their work.

Loads on our highways are 200-400% higher today than they were 30 years ago, both in volume and weight. Our industry is responsible for innovating materials, techniques and equipment that results in roads that can last under these tough conditions while fulfilling the demand of the public for roads that are smooth and quiet. These efforts cost money. Yet, cars and trucks are much more efficient these days, using less fuel and generating fewer fuel tax dollars that could be used to repair and maintain the roads. More efficient cars and trucks are, of course, desirable. But it does leave the industry in a situation where every dollar needs to be stretched even further.

Techniques for reusing the milled material from roads that are to be resurfaced has been a tremendous bonus for the industry because they can significantly lower the roadbuilder's cost. New methods allow the screening and processing of milled material so that it can be put back in asphalt plants to make fresh mix. If blended with the proper size of virgin aggregate, the fresh, new hot mix asphalt is equal or higher in quality than mix made from all virgin product. In addition, it is much cheaper to produce. With an initial investment in the proper equipment, the milled material is essentially free, and its use conserves environmental resources. Astec Industries has been tirelessly promoting this sensible approach. Astec Industries builds all of the equipment necessary for milling existing pavement, processing the material, crushing the material, processing it back to virgin sizes, and then running it through a hot mix asphalt plant where it is converted to fresh hot mix. This material is then hauled to the road, remixed through our transfer machines and placed through Roadtec pavers to produce a smooth, quiet, safe and long-lasting pavement. The various Astec Industries companies build the entire system, and the corporation has been the pioneer in every step of this process.

The images at the right show the machines used for removal of the old pavement to placement of the new. During each process, machinery built by our companies plays an integral part. We are proud of our contribution to the road infrastructure of our country. We diligently strive to design and manufacture equipment that will allow our customers to remove, widen and replace pavement given the difficult conditions under which they operate. We will continue to develop equipment that will make our customers more cost-competitive and able to construct safer, quieter, and longer-lasting pavements for the tax-paying public.



1. Removal of old pavement

Milling Machines - Roadtec, Inc. manufactures five models of milling machines that remove the pavement and produce a road profile that is extremely smooth, both longitudinally and transversely along the road, giving a flat surface that is ready for placement of new pavement. While doing this, these machines produce an enormous tonnage of recycle material that can be reprocessed and put back into the new pavement.

2. Reprocessing of recycle

Crushing Equipment – Our track-mounted crushing machines and our stationary crushers allow the reprocessing of recycle material and virgin material for roadways. Our companies offer 6 sizes of track-mounted crushers and stationary crushers for processing recycle material from both milled pavements as well as ripped up pavements.

3. Processing RAP
(Reclaimed Asphalt Product)

Screening Plants - Johnson Crushers International, Inc. and Astec Mobile Screens, Inc. build 15 models of screening plants that will process RAP back to the same sizes as the virgin aggregate.

4. Making HMA (Hot Mix Asphalt)

Converting the RAP to Hot Mix Asphalt – Astec, Inc. remains the market leader in production of hot mix asphalt plants in America. The patented Double Barrel® asphalt plant is the only plant available that will produce 50% recycle mixes without consuming additional fuel.

5. Remixing the material

Material Transfer Vehicles – Roadtec, Inc. 's patented Shuttle Buggy® material transfer vehicle remixes the material to eliminate particle segregation and temperature segregation immediately before laying the material.

6. Paving the roads

Pavers – Roadtec builds five models of pavers that place the pavement back on the road. The new Spray Paver™ with a built-in asphalt cement/emulsion tank combines the application of a tack coat and laying of the pavement into one step.

astecmobilescreens.com

ASTEC MOBILE SCREENS, INC.

Sterling, Illinois USA

portable screening plants • stationary screening plants
high frequency and conventional vibrating screens

Astec Mobile Screens is the world's premier supplier of innovative screening solutions. Our full line of products include mobile screening plants, portable and stationary screen structures and the PEP line of high frequency screens for the quarry, recycle, sand & gravel, mining and other material processing industries. Each screening plant is designed with the operator in mind and meets the highest demands in all kinds of applications.

In 2005, Astec Mobile Screens continued its domestic and international expansion into new markets through its growing distribution channels. Products marketed are the PEP line of Vari-Vibe® and Duo-Vibe® high frequency screening plants, as well as the Kolberg® line of mobile screening plants. These products share the same innovative screening technology and provide the material processing industry with the broadest range of screening solutions. This innovation allows Astec Mobile Screens to offer a screening plant that helps our customers perform better, safer and achieve maximum return on their investment.


ASTEC
INDUSTRIES, INC.

telsmith.com

TELSMITH, INC.

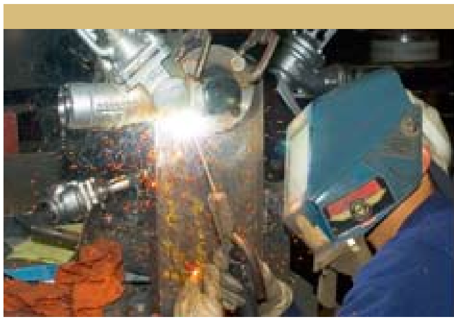
Mequon, Wisconsin USA

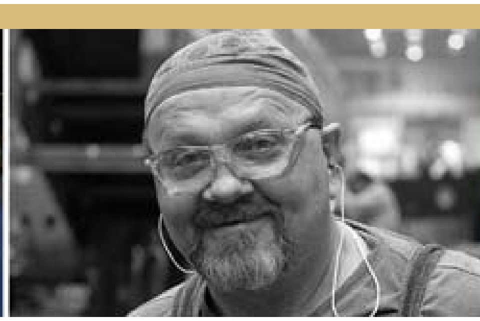
jaw crushers • cone crushers • impact crushers • vibrating feeders
vibrating screens • portable plant systems • modular plant systems

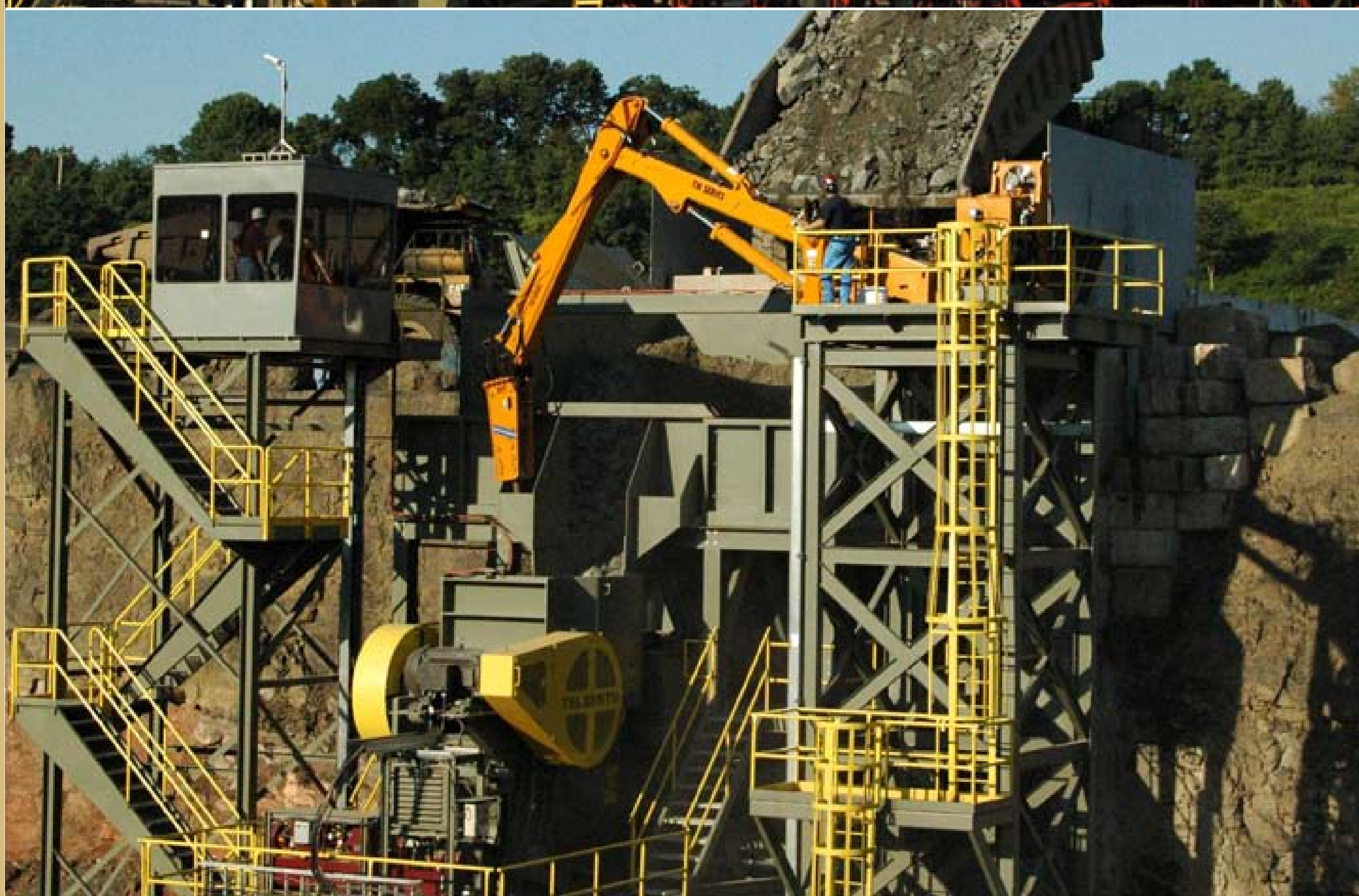
2006 marks a milestone for Telsmith, as we begin to celebrate a century of service to the aggregate and mining industries. Originally founded in 1906 as the Smith & Post Company, the use of the automobile and the demand for roads was anticipated.

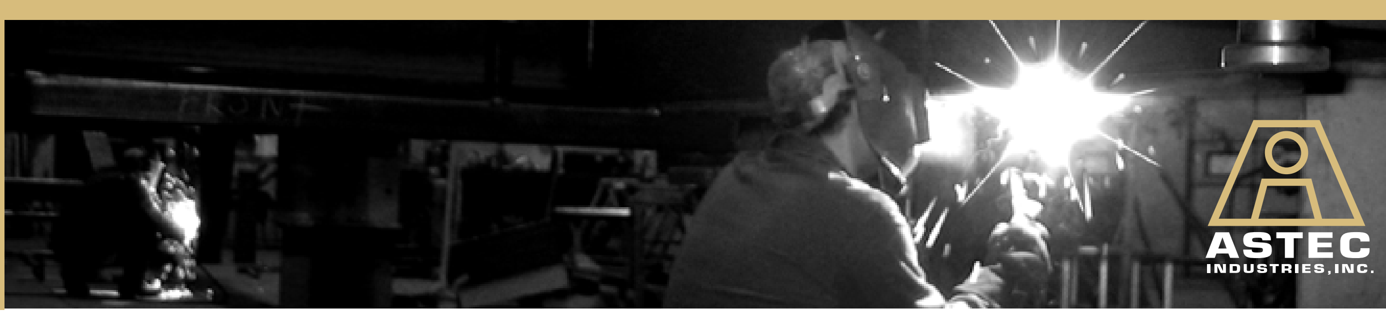
Telsmith is both a customer support organization and a design and manufacturing company. Optimizing spare parts availability and providing prompt, expert field service sets Telsmith apart in the industry. Performance-based core products include the Silver Bullet Series (SBS) cone crushers, Iron Giant® jaw crushers, Horizontal Shaft Impact (HSI) crushers, vibrating feeders and the Vibro-King®, Specmaker® and Value-King® screen brands. Telsmith's systems design capabilities provides these crushers and screens assembled either into portable or modular plant systems.

In 2005, Telsmith released 3 new products. The unique 3258 jaw crusher incorporates hydraulic systems that enhances performance and reduces maintenance. The PA6060 primary impact crusher utilizes smart adjustment systems to maintain optimum crushing efficiency. The TRAC10 is a user-friendly, automated control system for the SBS cone crusher that consistently delivers optimum crushing performance.








ASTEC
INDUSTRIES, INC.

kpijci.com

KOLBERG-PIONEER, INC.

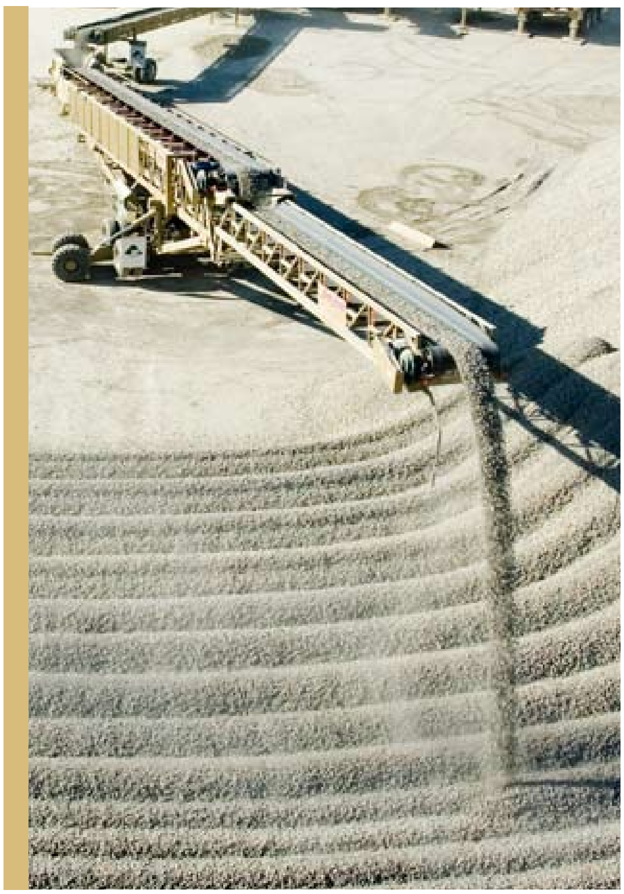
Yankton, South Dakota USA

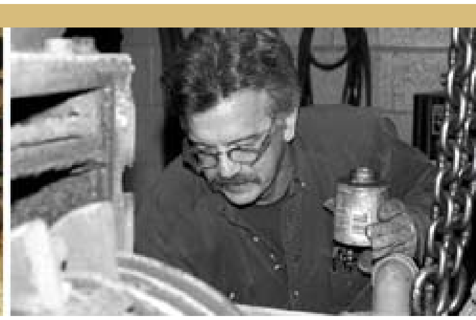
track-mounted horizontal screen plants • track-mounted cone crusher plants
portable screen plants • portable cone crusher plants • roller bearing cone crushers
COMBO® screens • horizontal screens • incline screens

Kolberg-Pioneer (KPI) designs, manufactures and distributes washing, conveying, crushing, screening, classifying, portable and mobile plant equipment throughout the world. For more than 75 years, KPI and its dedicated dealer organization have been recognized within the aggregate and recycling industries as the only true "One Source" supplier of dependable equipment and experienced application-oriented support.

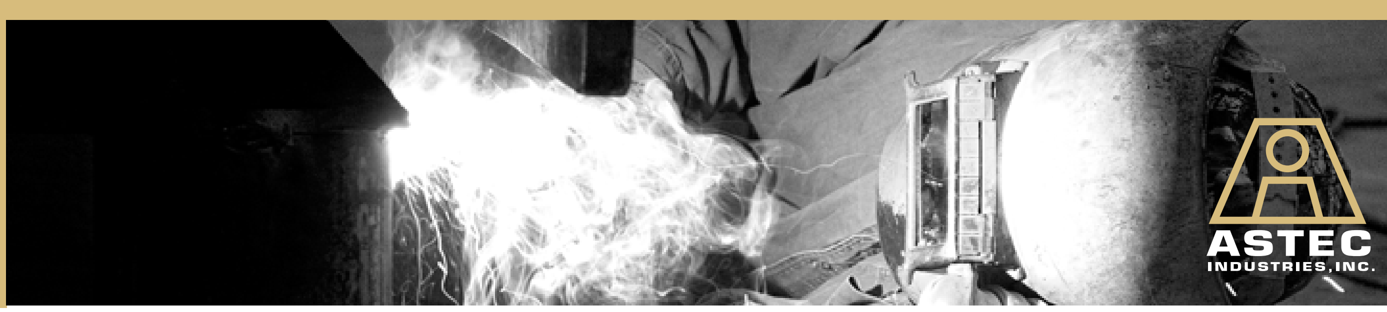
KPI continues this tradition of excellence by introducing the model FT2640 to the Fast Trax® line of track mounted mobile plants. With a maximum production capacity of 325 TPH, this highly mobile jaw crusher plant increases profitability by producing base material on-site and decreasing traditional material hauling costs associated with today's asphalt and concrete recycling projects.

The SuperStacker® line of extendable conveyors along with the Wizard Touch® automated control system continue to prove themselves as the only practical solution for stockpiling aggregate while meeting stringent non-segregation requirements. Available in lengths from 130 ft to 150 ft, these highly portable stackers produce stockpiles up to 35% larger than those produced by more conventional, non-extendable stackers. They are also built to perform in a multitude of new applications such as precision bin loading, barge loading and unique stockpiling configurations.






NEW HOLLAND
JCI


ASTEC
INDUSTRIES, INC.

kpijci.com

JOHNSON CRUSHERS INTERNATIONAL,INC.

Eugene, Oregon USA

jaw crushers • cone crushers • impact crushers • vibrating feeders
vibrating screens • portable plant systems • modular plant systems

Johnson Crushers (JCI) International designs, manufactures and markets a complete line of cone crushers and screens. Among them is the innovative Kodiak® brand of roller bearing cone crushers, which features a robust mine-duty design and offers unmatched reliability and production capabilities.

In 2005, JCI introduced two new track-mounted mobile cone crushing plants, the FT200 and FT300. These new additions to the Fast Trax® line combined with the existing mobile screen, jaw crusher and horizontal impact plants offer the expanding aggregate and recycling markets a highly profitable "System-Oriented" solution.

The Fast Pack® rapid-deployment production system continues to redefine industry standards for productivity and profitability. With production capabilities up to 500 TPH, the Fast Pack system can replace several under-utilized portable or stationary production facilities, converting days of costly down time into highly profitable production time.


K400


ASTEC
INDUSTRIES, INC.

rockbreaker.com

BREAKER TECHNOLOGY, LTD

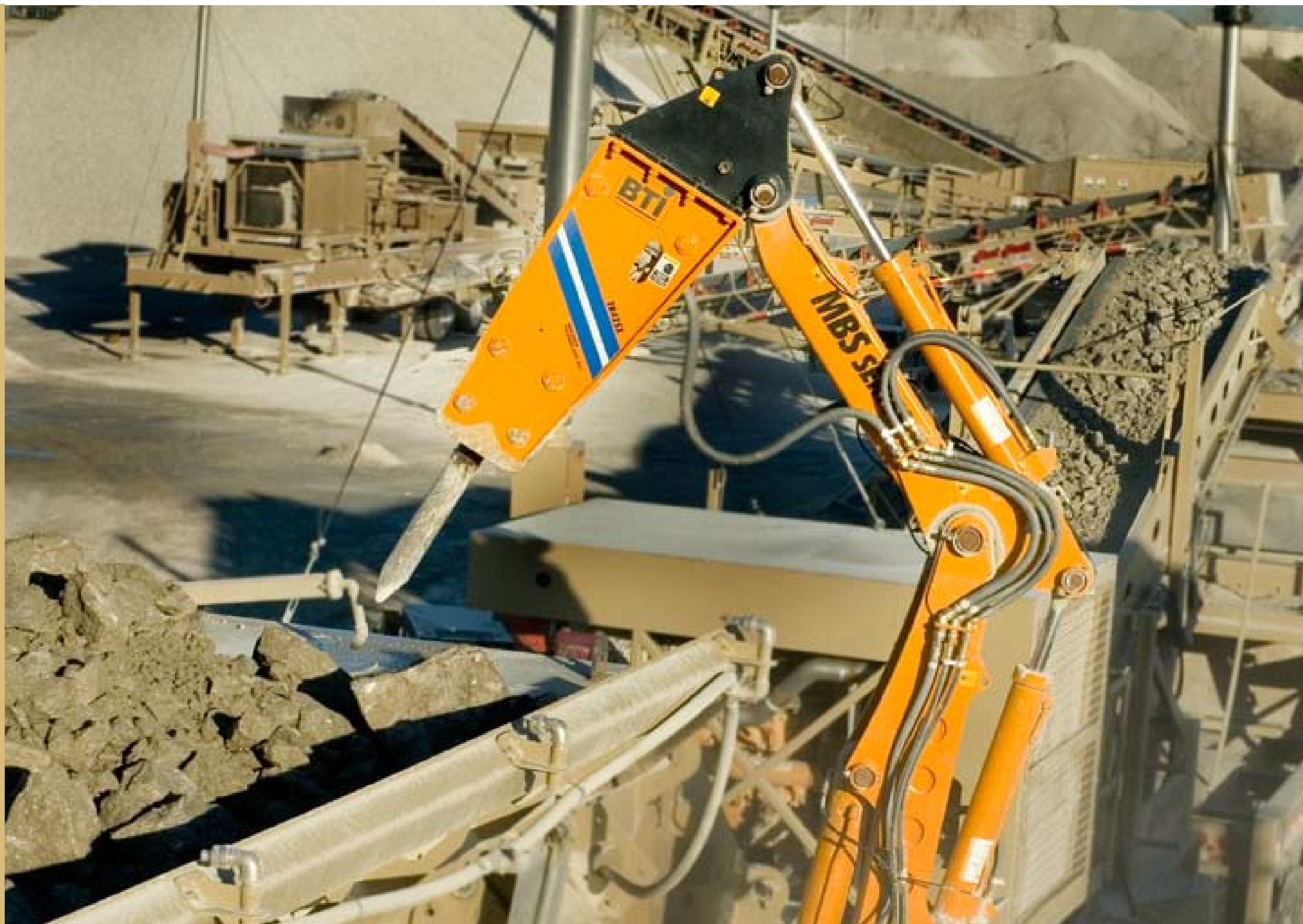
Thornbury, Ontario, Canada

hydraulic breakers • hydraulic and mechanical demolition attachments
vibratory compactors • stationary and portable rock breaker systems • mobile rock breakers
underground mine and quarry utility vehicles

Taking the best of over 40 years of Breaker Technology (BTI) mining equipment design, proven componentry, and rugged construction led to the new QS Series of Scalers. Along with the revolutionary VP Series of vibratory pick scaling head, the combination will be hard to beat in terms of productivity, safety and low maintenance.

Understanding that productivity, safety and low operating costs are driving factors in our customers' decision-making, new features, benefits, and refinement across our product lines is constantly underway in order to enhance results in the field.

Knowing that performance depends a great deal on a thorough understanding of operation and maintenance requirements, Breaker Technology is also very proud of the comprehensive training and support materials provided to their extensive dealer network.


BTI


BTI


ASTEC
INDUSTRIES, INC.

osborn.co.za

OSBORN ENGINEERED PRODUCTS, SA (Pty) Ltd.

Johannesburg, South Africa

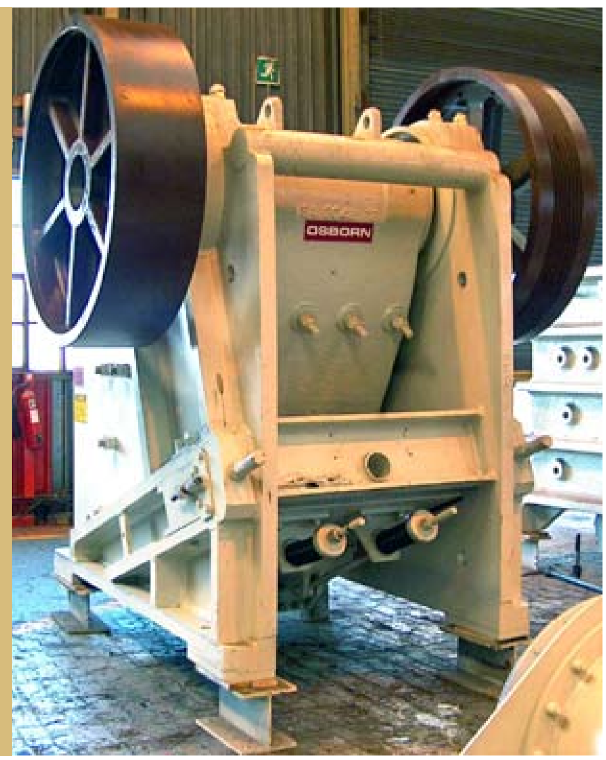
jaw crushers • cone crushers • double roll crushers • rotary breakers • processing and conveyor systems • conveyor idlers • vibrating screens and feeders

With an entrenched reputation in the market, Osborn continues to offer process equipment to the mining and aggregate industry, including new machines, factory-warranted rebuilds, replacement parts, conveyor idlers and project management.

2005 saw Osborn benefit from a stronger South African economy. This secured orders for its primary track-mounted jaw crusher, and production of the expanded range of secondary track mounted cone crushers and screens, to be launched into the market in 2006.

The worldwide rise in basic commodity prices has also resulted in a number of new mining ventures as well as expansions of exisiting mines and sea port material handling facilities. This benefited Osborn's project division and bolstered new machine and conveyor orders for 2006.

The strong South African economy has also highlighted a greater need to maintain our product offering, with major customers requesting maintenance contracts for both existing units in the field as well as new machine purchases. Osborn will be expanding the existing field service division to cater to this need.




ASTEC
INDUSTRIES, INC.

astecinc.com

ASTEC, INC.

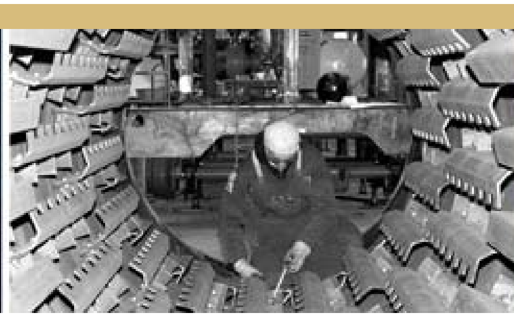
Chattanooga, Tennessee USA

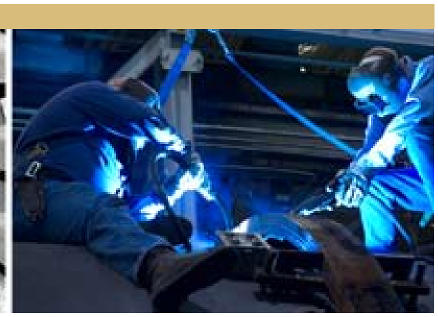
stationary hot mix asphalt facilities • portable hot mix asphalt facilities relocatable hot mix asphalt facilities • control systems • aggregate drying burners

Astec engineers, manufactures, sells and services Hot Mix Asphalt (HMA) facilities, components and controls. Astec also has a broad line of industrial products including soil remediation facilities. Astec remains the world market leader in its core business: Hot Mix Asphalt Facilities and related equipment.

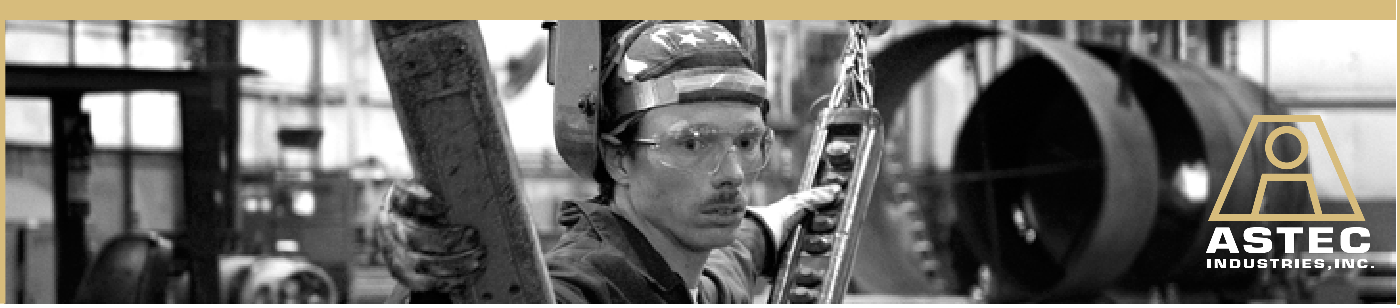
In 2005 Astec released new computer automation for HMA facilities and continued its outstanding growth in the burner product line. Astec expects to become the number one burner supplier in North America in 2006, just three years after announcing the new line of burners. Research and development of Astec's new coal-fired burner should be completed in the first half of 2006.

Astec's Customer Service Seminars received such great response that all schools sold out for 2006 and another had to be added for overflow. That, in combination with Astec's industry-exclusive Executive Level Seminar reaching full capacity in record time, confirms Astec's position as the market leader in service and technical education.






DOUBLE
BARREL
ASTEC


ASTEC
INDUSTRIES, INC.

heatec.com

HEATEC, INC.

Chattanooga, Tennessee USA

helical coil heaters • asphalt cement tanks • fuel storage tanks • Convectec® heaters vertical serpentine heaters and vaporizers • vertical mixing tanks • waste heat recovery units • steam generators • fuel metering systems • terminal heaters • portable and stationary polymer blending systems

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.

The company's core products for the HMA industry include hot oil heaters, asphalt storage tanks, asphalt metering systems, fuel storage tanks and heavy fuel preheating systems. In 2005 Heatec developed a new heat exchanger called the STACKPACK™ economizer, for the HMA industry. The heat exchanger boosts the thermal efficiency of hot oil heaters, saving customers money on fuel costs.

In addition to developing products for the HMA industry, Heatec also designs innovative products for use in many other applications. In 2005 Heatec produced a thermal fluid heater with 91.5% thermal efficiency for use in the printing industry. The innovative design includes two horizontally-mounted heat exchangers so the heater will fit in a low-ceiling area. Heatec also produced heating systems for several asphalt terminals located in the United States. These systems consist of twin thermal fluid heaters that can be used individually or in tandem. Heatec continues to develop special application equipment while also making improvements to its core product lines.


STACKPACK
HEATEC


HEATEC


HEATEC


ASTEC
INDUSTRIES, INC.

ceienterprises.com

CEI ENTERPRISES, INC.

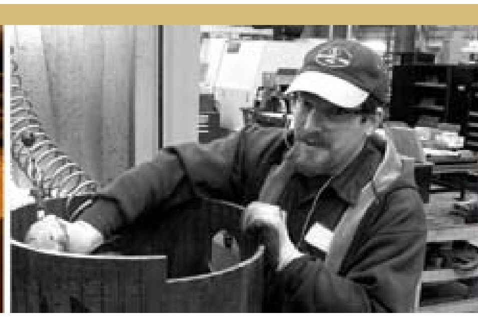
Albuquerque, New Mexico USA

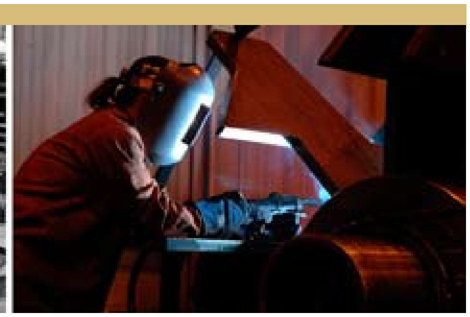
asphalt cement tanks • jacketed firebox heaters • helicoil heaters • fuel tanks
fuel preheaters • reaction tanks • asphalt rubber blending systems
asphalt metering systems • Nomad™ hot mix asphalt plants

CEI designs, manufactures and markets heating and storage products for the asphalt industry, as well as the Nomad™ line of Hot Mix Asphalt (HMA) plants.

In 2005 CEI announced the Nomad Rap King line of HMA plants. The Rap King is a counter flow drum mixer that is able to use recycled asphalt pavement as an additional aggregate and asphalt source. Like the Nomad 5.5 and Nomad 6.5, it is designed to meet the needs of contractors who primarily work on smaller projects, such as driveways, parking lots, and secondary roads.

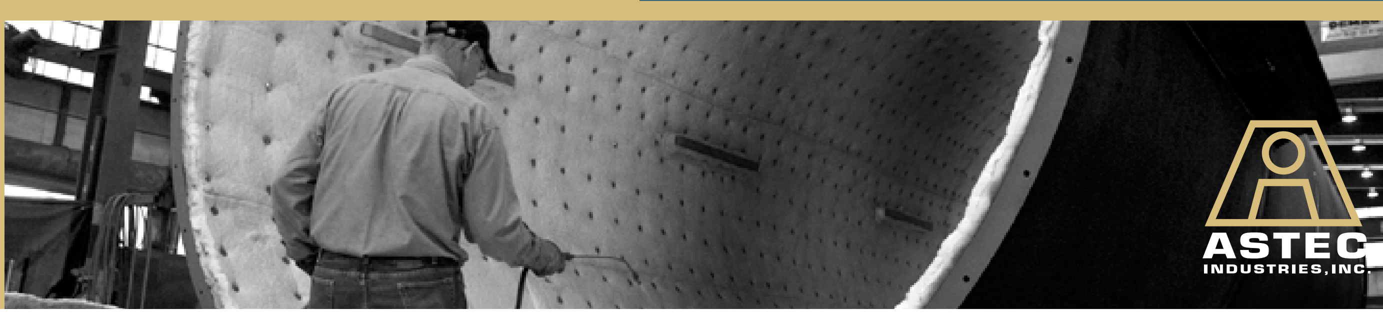
In addition to the usual horizontal and vertical asphalt storage tanks, CEI built a specialized barrel melting tank for Lake Asphalt of Trinidad. This drum melter is used to liquefy the Trinidad Lake Asphalt (TLA) after it has been put into barrels for transportation among the Caribbean islands. TLA is natural hard asphalt mined from the pitch lake in La Brea, Trinidad which holds an estimated ten million tons of pitch.






CEI ENTERPRISES


CEI
ENTERPRISES


ASTEC
INDUSTRIES, INC.

roadtec.com

ROADTEC, INC.

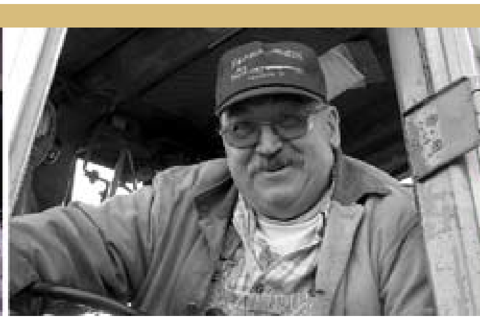
Chattanooga, Tennessee USA

cold planers • cold-in-place recycling machines • sidecutter attachments • rubber-tired and track-driven asphalt pavers • shuttle buggy® material transfer vehicle • road widener attachments

Roadtec designs, builds and markets roadbuilding equipment. Its three core product lines are cold planers, pavers, and material transfer vehicles, with a fourth line scheduled for introduction in 2006. Growing market share across all its product lines is a good sign that the company's reputation for product quality and service excellence is being recognized by more and more customers.

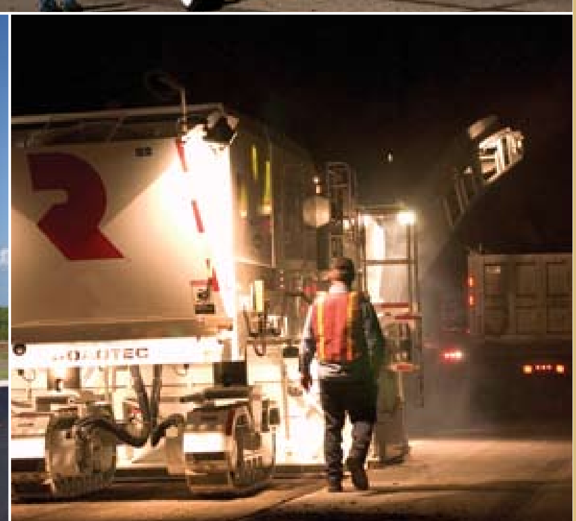
Increased demand for Roadtec product will be met through a 56,000 square foot facility expansion, construction of which began in November 2005, and through constant improvements in the efficiency of the Roadtec manufacturing process. Through the implementation of "lean manufacturing" the company has begun to significantly shorten cycle times and improve margins and plans on that trend continuing in 2006.

A new, innovative paver, the Spray Paver™, was introduced early in 2005. In 2006 Roadtec plans to develop a radically different, high-density paver screed technology, which will help to expand the company's paver market share, especially in the international arena. Roadtec is also planning the rollout of a new product line in the second quarter of 2006. The new line, soil stabilizers, will fill the market's need for machines capable of creating stable base surfaces of even consistency. Roadtec's patented Shuttle Buggy® material transfer vehicle continues to set the industry standard. The ability of the Shuttle Buggy to help create smoother, longer-lasting pavements has many state Departments of Transportation specifying this type machine for public road construction.




RX-900
ROADTEC


SB-2500C
SP200
ROADTEC




ASTEC
INDUSTRIES, INC.

carlsonpavingproducts.com

CARLSON PAVING PRODUCTS, INC.

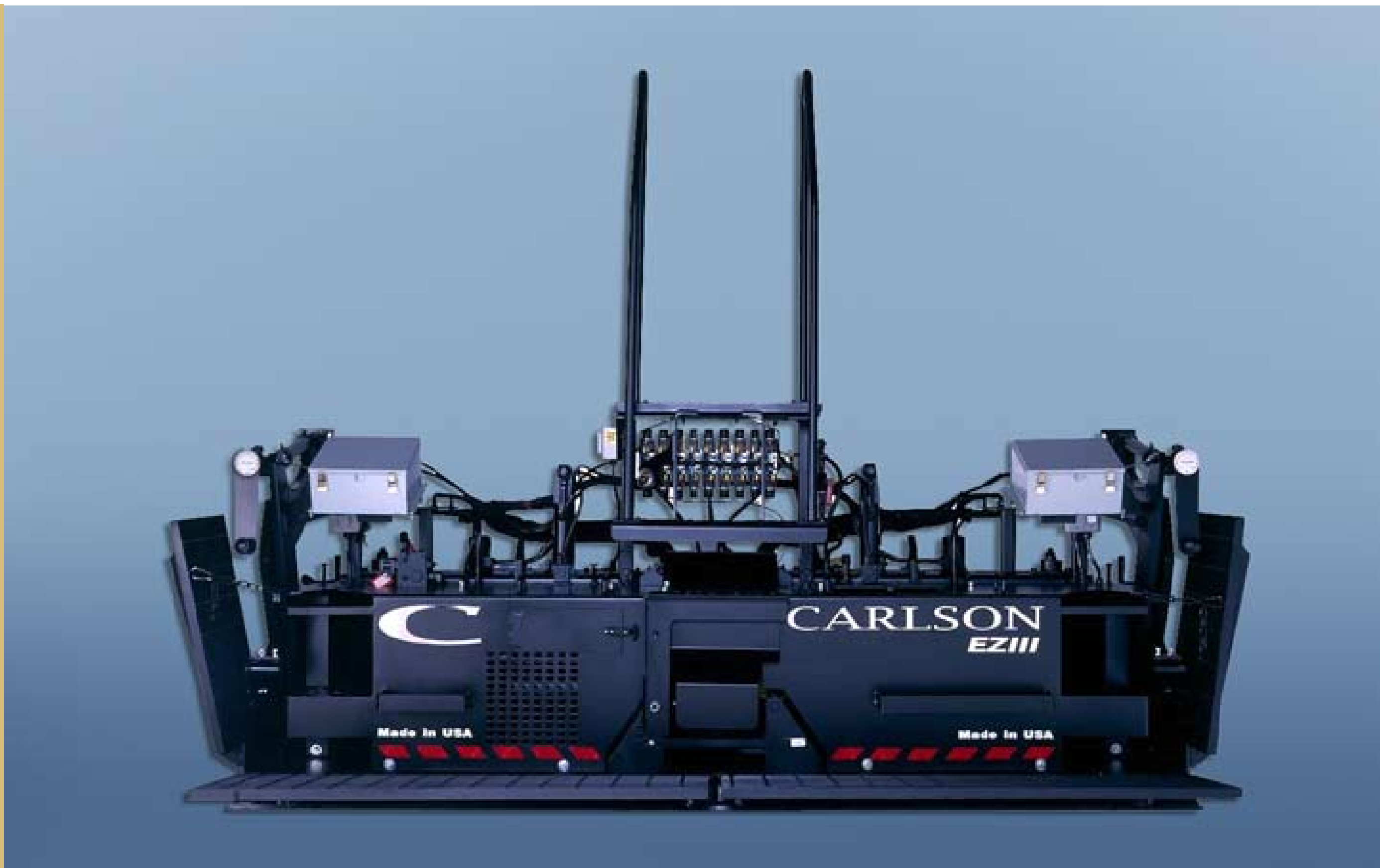
Tacoma, Washington USA

screeds for highway class and commercial pavers • windrow pick-up machines

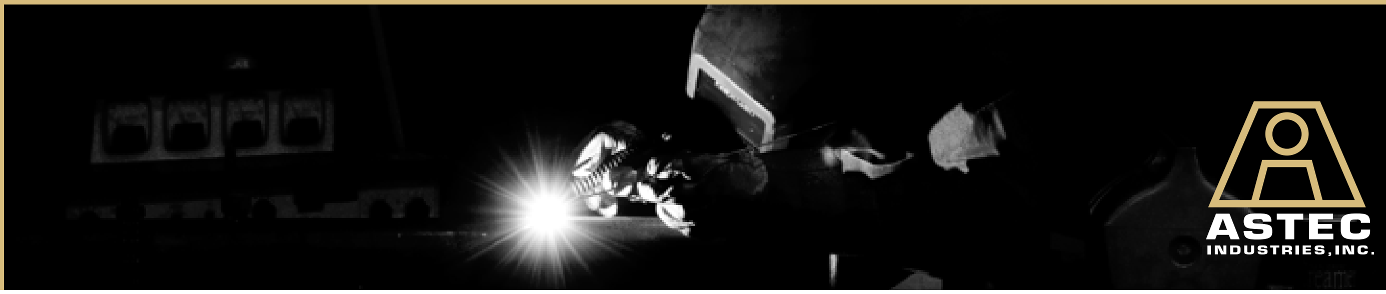
Carlson Paving Products has been manufacturing asphalt screeds for more than 20 years. Initially started and still located in the Pacific Northwest, Carlson Paving Products, Inc. has continued to develop new and innovative products. Manufacturing asphalt screeds for all types and sizes of highway class pavers, Carlson continues to maintain a dominant presence in the paving industry.

Acquired by Astec Industries in 2000, Carlson has since expanded its product line to include a windrow pick up machine with a removable highway towing package available.

Carlson Paving Products 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. These products are designed with the owner, operator, and mechanic in mind. Carlson's equipment line is available through our extensive network of distributors.


CARLSON
EZIII
Made in USA
Made in USA


RLSON


ASTEC
INDUSTRIES, INC.

astecunderground.com

ASTEC UNDERGROUND, INC. - AMERICAN AUGERS, INC.

Loudon, Tennessee USA

trenchers • auger boring machines • horizontal directional drills (HDD) • drilling fluid mixing cleaning and recycling • downhole tooling for auger boring and HDD equipment

Astec Underground entered the underground construction market in the late 1980's with the acquisition of Trencor, the industry's most respected brand of large, heavy duty trenchers capable of cutting wide, deep trenches in the most difficult soil conditions. Next, American Augers, the world's leading manufacturer of Horizontal Directional Drilling equipment offering thrust and pullback force greater than 1,000,000 pounds, was added in late 1999.

Astec Underground then formed a strategic alliance with CNH/Case Construction Equipment for the sale and support of the company's well-known line of trenchers, vibratory plows and Horizontal Directional Drill products. This arrangement subsequently resulted in the purchase of Case underground utility construction products by Astec Underground. The former Case products now are manufactured and sold under the Astec brand.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FINANCIAL INFORMATION

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except as noted*)

	2005	2004	2003	2002	2001
Net sales	$616,068	$504,554	$402,066	$458,428	$435,869
Selling, general and administrative expenses	81,971	69,892	63,948	68,757	68,349
Goodwill impairment	--	--	16,261	--	--
Gain on sale of real estate, net of real estate impairment charge	6,531	--	--	--	--
Relocation and start-up expenses	--	--	--	3,277	--
Research and development	11,319	8,580	7,669	7,116	6,919
Income (loss) from operations	46,260	24,334	(23,058)	(1,677)	7,665
Interest expense	4,209	5,033	9,095	11,074	9,656
Senior note termination expense	--	--	3,837	--	--
Income (loss) from continuing operations	28,094	12,483	(30,712)	(6,638)	684
Income from discontinued operations, net of tax	--	1,164	1,748	1,932	1,309
Gain on disposal of discontinued operations (net of tax of $5,071)	--	5,406	--	--	--
Net income (loss)	28,094	19,053	(28,964)	(4,706)	1,992
Earnings (loss) per common share*					
Income (loss) from continuing operations:					
Basic	1.38	0.63	(1.56)	(0.34)	0.03
Diluted	1.34	0.62	(1.56)	(0.34)	0.03
Income from discontinued operations:					
Basic	--	0.33	0.09	0.10	0.07
Diluted	--	0.33	0.09	0.10	0.07
Net income (loss):					
Basic	1.38	0.96	(1.47)	(0.24)	0.10
Diluted	1.34	0.95	(1.47)	(0.24)	0.10
Consolidated Balance Sheet Data					
Working capital	$137,981	$ 106,489	$ 81,001	$173,224	$161,867
Total assets	346,583	324,818	319,973	416,979	400,691
Total short-term debt	--	11,827	36,685	3,220	2,368
Long-term debt, less current maturities	--	25,857	38,696	130,645	127,285
Shareholders' equity	242,742	191,256	167,517	192,647	197,347
Book value per common share at year-end*	11.57	9.52	8.49	9.79	10.07

SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

(in thousands, except as noted*)

Quarterly Financial Highlights (Unaudited)		**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2005	Net sales	$161,634	$170,814	$149,103	$134,516
	Gross profit	35,033	39,293	33,192	25,790
	Net income	6,792	10,221	10,059	1,022
	Earnings (loss) per common share*				
	Net income:				
	Basic	0.34	0.51	0.49	0.05
	Diluted	0.33	0.49	0.47	0.05
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

Common Stock Price *

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005 High	$22.39	$25.45	$35.56	$34.16
2005 Low	16.01	19.41	21.12	23.72
2004 High	$16.16	$18.70	$20.14	$20.42
2004 Low	11.50	15.17	15.20	14.04

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 4,200.

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 49.

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 on the cost of our equipment and came at a more rapid pace than selling price increases could be installed. Until 2004, steel had not seen much fluctuation in cost for many years. In 2005, steel prices were relatively flat compared to a very volatile 2004. During 2005, inflation in purchased parts and materials impacted product costs. We expect these elevated prices to continue in 2006. The Company will continue to monitor the price increases and make adjustments as needed.

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, 2004. In August 2005, President Bush signed into law the Safe, Accountable, Flexible and Efficient Transportation Equity Act - A Legacy for Users ("SAFETEA-LU"), which authorizes appropriation of $286.5 billion in guaranteed federal funding for road, highway and bridge construction, repair and improvement of the federal highway and transit projects for federal fiscal years October 1, 2004 through September 30, 2009. The Company believes that the federal highway funding significantly influences the purchasing decisions of the Company's customers who are more comfortable making purchasing decisions with the six-year legislation in place. The federal funding provides for approximately 25% of highway, street, roadway and parking construction funding in the United States.

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.

In addition to public sector funding, the economies in the markets the Company serves, the price of oil and its impact on customers' purchase decisions and the price of steel may each affect the Company's financial performance. Economic downturns, like the one experienced from 2001 through 2003, generally result in decreased purchasing by the Company's customers, which, in turn, causes reductions in sales and increased pricing pressure on the Company's products. Rising interest rates also typically have the effect of negatively impacting customers' attitudes toward purchasing equipment. The Company expects interest rates to rise during the year, but it does not expect such increases to have a material impact on the financial results of the Company. In addition, significant portions of the Company's revenues relate to the sale of equipment that produces asphalt mix. A major component of asphalt is oil. A rise in the price of oil increases the cost of providing asphalt, which could likely decrease demand for asphalt, and therefore decrease demand for certain Company products. Steel is a major component in the Company's equipment. As steel prices increased during 2004, the cost of manufactured parts, as well as the costs of purchased parts and components, also increased. Steel prices abated somewhat during 2005 but remained at historically high levels. Although the Company has instituted price increases in response to rising steel prices, purchased parts and component prices, if the Company is not able to raise the prices of its products enough to cover the increased costs of goods, the Company's financial results will be negatively affected. The Company believes that steel prices will be flat during 2006 and expects oil prices to remain somewhat volatile during 2006. The Company's customers appear to be adapting their prices in response to the fluctuating oil prices and the fluctuations do not appear to be impairing the equipment purchases by them at this time. 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, the Company's equipment is marketed directly to customers as well as through dealers. During 2005, approximately 75% to 80% of equipment sold by the Company was sold directly to the end user.

The Company's business includes the sale of replacement parts. During 2005, sales of replacement parts accounted for 23.4% of the Company's total revenues.

The Company is operated on a 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 parent company). 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 established goals. 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; 2005 vs. 2004

The Company generated net income for 2005 of $28,094,000, or $1.34 per diluted share, compared to net income of $19,053,000, or $0.95 per diluted share, in 2004. The weighted average number of common shares outstanding at December 31, 2005 was 20,976,966 compared to 20,079,349 at December 31, 2004.

The results of discontinued operations are presented in the income from discontinued operations and the gain on disposal of discontinued operations (net of tax) line items and are excluded from all other lines on the consolidated 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 2004 have been restated to reflect discontinued operations for Superior Industries of Morris, Inc.

Net sales from continuing operations for 2005 were $616,068,000, an increase of $111,514,000, or 22.1%, compared to net sales from continuing operations of $504,554,000 in 2004. The increase in net sales from continuing operations in 2005 was primarily due to improving domestic economic conditions, improved customer confidence, finalization of the federal highway funding legislation, continued weakness of the dollar against foreign currencies and increased marketing efforts related to replacement parts sales.

Domestic sales from continuing operations increased from $381,938,000 in 2004 to $499,838,000 in 2005, an increase of $117,900,000, or 30.9%. 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 2005, international sales decreased $6,386,000, or 5.2%, to $116,230,000 compared to international sales from continuing operations of $122,616,000 in 2004. International sales decreased the most in Europe, followed by Asia and the Middle East. These decreases are due primarily to competitive pricing pressures from foreign manufacturers, the impact of oil prices on ocean freight charges and declining economic conditions in these geographic areas. International sales increased in Africa, Canada and South America. These increases are due primarily to continued weakness of the dollar against these currencies and improving local economic conditions in these geographic areas.

Parts sales from continuing operations were $144,199,000 in 2005 compared to $116,530,000 in 2004. The increase of $27,669,000 was generated mainly by the Aggregate and Mining Group and the Underground Group. The increase was primarily due to improving economic conditions, an increased effort to sell competitive parts and the addition of the utility trencher product line to the Underground Group.

Gross profit from continuing operations increased from $103,072,000 in 2004 to $133,308,000 in 2005. As a result, the gross profit from continuing operations as a percentage of net sales from continuing operations increased from 20.4% in 2004 to 21.6% in 2005. The primary factors that caused an increase in gross profit were increased net sales due to an improving economy and price increases, increased parts sales, internal cost reduction programs and profitable new products. These improvements in gross profit were offset by an increase in underutilization of capacity of $2,074,000.

In 2005 selling, general and administrative ("SG&A") expenses from continuing operations increased by $12,079,000 to $81,971,000, or 13.3% of 2005 net sales, from $69,892,000, or 13.9% of net sales in 2004. The increase in SG&A in 2005 compared to 2004 was primarily due to increases in salaries, commissions and employee benefits of $7,412,000, legal costs of $1,143,000, advertising and marketing expenses of $733,000 and ConExpo expenses of $600,000.

Research and development expenses from continuing operations increased by $2,739,000, or 31.9%, from $8,580,000 in 2004 to $11,319,000 in 2005. The increase is related to the development of new products and improvement of current products.

During 2005, as part of the Company's periodic review of its operations, the Company assessed the recoverability of the carrying value of certain fixed assets, which resulted in an impairment loss of $1,183,000 on certain real estate currently not being used in the operations of the Company. This loss reflects the amounts by which the carrying value of the real estate exceeded its estimated fair value. This loss is included in operating expenses as a component of "gain on sale of real estate, net of real estate impairment charge" in the consolidated statements of operations. The real estate values and related impairment charge are included in the Asphalt Group for segment reporting purposes.

In addition, during 2005, the Company closed on the sale of the vacated Grapevine, Texas facility for $13,200,000. The assets sold had previously been classified on the consolidated balance sheet as assets held for sale with a book value of $4,886,000. The related gain, net of closing costs, on the sale of the property of $7,714,000 is included in operating expenses as a component of "gain on sale of real estate, net of real estate impairment charge" in the consolidated statements of operations. The assets sold and the related gain are included in the Underground Group for segment reporting purposes.

Interest expense from continuing operations for 2005 decreased by $824,000, or 16.4%, to $4,209,000 from $5,033,000 in 2004. This equates to 0.7% of net sales in 2005 compared to 1.0% of net sales for 2004. The reduced debt level and negotiated reductions in interest rates on the credit facility are the primary reasons for reduced interest expense.

Other income (expense) - net from continuing operations was income of $252,000 in 2005 compared to an expense of $19,000 in 2004. The net change in other income from 2004 and 2005 was due primarily to a decrease in the loss on foreign currency transactions of $174,000.

For 2005, the Company had an overall income tax expense of $14,748,000, or 34.3% of pre-tax income compared to the 2004 tax expense of $13,247,000, or 40.9% of pre-tax income. The 2004 income tax expense for continuing operations was $7,021,000, or 35.8% of pre-tax income. The reduction in the effective tax rate on continuing operations from 2004 to 2005 is primarily due to research and development tax credits taken in 2005 and the impact of the Domestic Product Activity Deduction.

Earnings per share for 2005 were $1.34 per diluted share compared to $0.95 per diluted share for 2004.

Earnings from continuing operations for 2005 were $1.34 per diluted share compared to $0.62 per diluted share for 2004.

The backlog at December 31, 2005 was $127,694,000 compared to $93,543,000 at December 31, 2004, which represents a 36.5% increase. The backlog increased in all segments, with the largest increase of $29,680,000 occurring in the Aggregate and Mining Group, followed by increases of $2,156,000 in the Mobile Asphalt Paving Group, $1,779,000 in the Asphalt Group and $536,000 in the Underground Group. The Company is unable to determine whether this backlog effect was experienced by the industry as a whole. The Company believes the increased backlog reflects the impact of federal funding under SAFETEA-LU and an improvement in customer confidence in the economic conditions in the United States, which should result in increased federal and state fuel tax revenue and increased commercial projects.

Asphalt Group: During 2005, this segment had sales of $170,205,000 compared to $141,050,000 for 2004, an increase of $29,155,000, or 20.7%. Segment profits for 2005 were $16,099,000 compared to $8,109,000 for 2004, an increase of $7,990,000, or 98.5%. The primary reason for the increase in sales is improved customer confidence in domestic economic conditions, as well as the finalization of the federal highway funding legislation. Improved utilization of manufacturing overhead positively impacted gross profits and segment income. During 2005, as part of the Company's periodic review of its operations, the Company assessed the recoverability of the carrying value of certain Asphalt Group fixed assets, which resulted in an impairment loss of $1,183,000 on certain real estate currently not being used in the operations of the Company. This loss reflects the amounts by which the carrying value of the real estate exceeded its estimated fair value. This loss is included in the 2005 segment profit for the Asphalt Group.

Aggregate and Mining Group: During 2005, sales for this segment increased $35,118,000, or 16.9%, to $242,515,000 compared to $207,397,000 for 2004. Discontinued operations related to Superior Industries of Morris, Inc. have been excluded from the segment. The increase in sales was attributable to increases in domestic 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. Segment profits for 2005 increased $2,870,000, or 14.6%, to $22,555,000 from $19,685,000 for 2004. Profits improved from increased machine sales volume, increased parts sales and profitable new products. Such increases were offset partially by decreased international sales volume and increased underutilization of overhead.

Mobile Asphalt Paving Group: During 2005, sales for this segment increased $21,557,000, or 23.6%, to $112,947,000 from $91,390,000 in 2004. Sales increases occurred almost entirely in the domestic market and were primarily due to improved customer confidence in domestic economic conditions, the finalization of the federal highway funding legislation and increased marketing efforts in competitive parts sales. Segment profits for 2005 increased $4,737,000, or 62.7%, to $12,291,000 from $7,554,000 for 2004. Segment profits were positively impacted by improved machine sales volume, as well as improved parts sales volume. Segment profits were negatively impacted by increased underutilization of overhead.

Underground Group: During 2005, sales for this segment increased $26,014,000, or 40.4%, to $90,400,000 from $64,386,000 for 2004. This increase is due primarily to increases in sales of large trenchers, directional drills, auger and boring machines and mid-line and small trenchers. These increases accounted for $22,000,000 of the increase in sales. Parts sales also increased $8,400,000. These increases were offset by a reduction in sales of mud systems and used equipment. Segment profits increased $7,954,000 from a loss of $1,653,000 to profit of $6,301,000. Segment profit increased primarily due to the gain recognized on the sale of the Trencor manufacturing facility in Grapevine, Texas during the third quarter of 2005. Excluding this gain of $7,714,000, the segment loss in 2005 would have been $1,413,000, resulting in a decrease in segment loss of $240,000 from 2004 to 2005. In addition, underutilization of overhead increased $1,532,000 from 2004 to 2005.

Results of Operations; 2004 vs. 2003

The Company generated 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 are presented in the income from discontinued operations line and the gain on disposal of discontinued operations (net of tax) and are excluded from all other lines on the consolidated 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 have been restated to reflect discontinued operations for Superior Industries of Morris, Inc.

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 from continuing operations increased from $308,396,000 in 2003 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 from continuing operations increased $28,946,000, or 30.9%, to $122,616,000 compared to 2003 international sales of $93,670,000. 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. The decline in Australia is reflective of the heavy market penetration asphalt plants have made over the last several years.

Parts sales from continuing operations 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 on 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 from continuing operations increased to $103,072,000, or 20.4% of net sales in 2004, from $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 overhead was reduced from $10.2 million to $2.8 million in 2004.

In 2004 selling, general and administrative ("SG&A") expenses from continuing operations increased by $5,944,000 to $69,892,000, or 13.9% of 2004 net sales, from $63,948,000, or 15.9% 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 from continuing operations 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 from continuing operations for 2004 decreased by $4,062,000, or 44.7%, to $5,033,000 from $9,095,000. This equates to 1.0% of net sales in 2004 compared to 2.3% 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%.

Other income (expense) - net was an expense of $19,000 in 2004 compared to an expense of $912,000 in 2003 for a change of $893,000. The change in net expense was primarily due to a decrease from 2003 to 2004 of $259,000 in the losses on foreign currency related activity in addition to $349,000 of costs incurred in 2003 related to the relocation of the Trencor operation from Grapevine, Texas to the Loudon, Tennessee facility.

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.

The gain on sale of the Superior Industries of Morris, Inc.'s assets and liabilities totaled $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 from continuing operations 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 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 prior few years. Improved utilization of manufacturing overhead 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 related to Superior Industries of Morris, Inc. 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 overhead 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 write-downs 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.

Liquidity and Capital Resources

The Company had no borrowings under its credit facility with General Electric Capital Corporation ("GE Capital") at December 31, 2005. In addition, during the fourth quarter of 2005, the Company paid off the entire balance of its borrowings under its Industrial Development Revenue Bonds on which it was making annual principal payments of $500,000. The Company reduced its outstanding debt with the proceeds from the sale of its Grapevine, Texas manufacturing facility and cash flow generated by operations. At December 31, 2005, the Company had $68,866,000 borrowing availability, net of letters of credit, on its revolver based on eligible accounts receivable and inventories. This is compared to total short-term borrowing, including current maturities of long-term debt, of $11,827,000 at December 31, 2004. Long-term debt, less current maturities, was $25,857,000, which consisted of $16,157,000 under the GE Capital term loan and $9,700,000 of Industrial Development Revenue Bonds at December 31, 2004.

Net cash provided by operating activities for the year ended December 31, 2005 was $32,107,000 compared to $21,086,000 for the year ended December 31, 2004. This increase is primarily due to an increase in net operating income of $21,927,000, an increase in tax benefits of $4,777,000 related to stock options exercised in 2005, an increase in cash provided by prepaid expenses of $6,072,000 and a decrease in cash used by inventories of $10,179,000. These increases of cash were offset by the non-cash gain on the sale of the Grapevine, Texas facility of $7,714,000, an increase in cash used by trade receivables of $5,311,000, a decrease in cash provided by accounts payable of $5,233,000 and a decrease of $5,063,000 in cash provided by other accrued liabilities.

Cash flows provided by investing activities for the year ended December 31, 2005 were $1,108,000 compared to $13,556,000 for the year ended December 31, 2004. During 2005, the Company had proceeds from the sale of the Grapevine, Texas facility of $12,589,000, while in 2004 the Company had proceeds from the sale of Superior Industries of Morris, Inc. of $23,496,000. These transactions constitute the primary difference in investing cash flows from 2004 to 2005.

Cash used by financing activities was $18,922,000 in 2005 and $35,137,000 in 2004. The primary reason for the difference in the financing cash flows from 2004 to 2005 was an increase of $16,092,000 in proceeds from the issuance of common stock related to stock option exercises during 2005.

On September 10, 2001, the Company 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 could also elect an interest rate of three-percent (3%) above the London Interbank Offered Rate ("LIBOR"). The term loan required 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 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., as discussed further below. 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. 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.

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 $702,485. During the third quarter of 2005, the Company used available cash to pay off the term loan portion of the GE Capital debt early. Due to the early repayment of this loan, the Company expensed approximately $519,000 of related previously unamortized loan fees in the third quarter of 2005 as additional interest expense.

On April 1, 2005, the Company entered into an amendment to the credit agreement with GE Capital that amended interest rates on the Company's revolving and term loan facilities to more favorable rates than those rates under the previous terms. Under this amendment, interest rates are based on applicable index rates plus a sliding scale of applicable index margins from zero to three-fourths of one percent (0.75%), or at the option of the borrower, the LIBOR margin plus an applicable index margin from two percent (2.0%) to two and three-fourths percent (2.75%) based on a level of total funded debt ratio.

In the third quarter of 2005, GE Capital released its security interest in substantially all of the Company's assets except for accounts receivable and inventories.

The Company was in compliance with the financial covenants under its credit facility at December 31, 2005 and 2004.

The Company's Canadian subsidiary, Breaker Technology Ltd, has available a credit facility issued by GE Capital dated May 14, 2003 with a term of four years for $5,000,000 to finance short-term working capital needs, as well as to cover the short-term establishment of letter of credit guarantees. At December 31, 2005 and 2004, Breaker Technology Ltd had no outstanding balance under the credit facility and approximately $294,000 and $284,000, respectively, 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, 2005 and 2004 was $294,000 and $284,000, respectively.

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd. ("Osborn"), has available a credit facility of approximately $3,159,000 (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, 2005 Osborn had no outstanding loan due under the credit facility and had approximately $1,292,000 in performance and retention bonds guaranteed under the facility. The facility is secured by Osborn'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.

Capital expenditures in 2006 are budgeted to be approximately $29,000,000. The Company expects to finance these expenditures using the available capacity under the Company's revolving credit facility and internally generated funds. Capital expenditures for 2005 were $11,630,000 compared to $11,168,000 in 2004.

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, 2006.

Market Risk and Risk Management Policies

The Company is exposed to changes in interest rates, primarily from its revolving credit agreements. 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, 2005 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 $252,000 for the year ended December 31, 2005. 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 8.8% and 9.1% of total assets at December 31, 2005 and 2004, respectively, and 7.4% and 9.0% of total revenue for 2005 and 2004, respectively. Assuming foreign exchange rates decreased ten percent (10%) from the December 31, 2005 and 2004 levels, the December 31, 2005 and 2004 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, 2005:

The estimated interest obligations were calculated using the actual balance of the revolving credit loan at

	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	--	--	--	--	--
Long-term debt obligations	--	--	--	--	--
Operating lease obligations	$ 4,012,000	$ 1,616,000	$ 2,362,000	$ 34,000	--
Estimated interest obligations	--	--	--	--	--
Other contractual obligations reflected on the registrant's balance sheet under GAAP	48,000	48,000	--	--	--
Total	$ 4,060,000	$ 1,664,000	$ 2,362,000	$ 34,000	--

December 31, 2005 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, 2005, which was 7.5%. For all other debt obligations, we used the 2005 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 2005 we made contributions of approximately $256,000 to our pension plans and $106,000 to our post-retirement benefit plans, for a total of $362,000, compared to $1,754,000 in 2004. We estimate that we will contribute a total of approximately $806,000 to the pension and post-retirement plans during 2006. 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 $10,500,000 and $17,567,000 at December 31, 2005 and 2004, respectively. These obligations have average remaining terms of three years with minimal risk.

The Company is contingently liable under letters of credit of approximately $6,482,000, primarily for performance guarantees to customers or insurance carriers.

Off-balance Sheet Arrangements

As of December 31, 2005 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 eight of twelve domestic 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 (70%) 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 (referred to herein as "Astec Insurance" or "the captive"). 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 $2.5 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 $3.5 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 financial statements 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 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. The Company evaluates sales with multiple deliverable elements (such as an agreement to deliver equipment and related installation services) to determine whether the revenue related to an individual deliverable element should be recognized. In addition to the previously mentioned general revenue recognition criteria, the Company only recognizes revenue on an individual delivered element when there is objective and reliable evidence that the delivered element has a determinable value to the customer on a standalone basis and there is no right of return.

Recent Accounting Pronouncements

In May 2004, the FASB issued FSP No. 106-2, Accounting and Disclosure Requirements Related to the Prescription Drug, Improvement and Modernization Act of 2003, which provides authoritative guidance on accounting for the Medicare Act. The Medicare Act provides for a possible federal subsidy of certain prescription drug claims for sponsors of retiree health care plans with drug benefits, beginning in 2006. The Company has determined that the Company's two post retirement medical insurance plans, which provide prescription drug benefits, will not be entitled to the federal subsidy under the Medicare Act. Therefore, management believes the application of the provisions of FSP No. 106-2 will not have a significant impact on the Company's consolidated financial statements.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs" ("SFAS 151"). SFAS 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is adopting SFAS 151 effective January 1, 2006. The adoption of SFAS 151 is not expected to have a significant impact on the Company's consolidated financial statements.

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 as amended by SEC Rule FR-74 for public companies, 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 at the beginning of the first fiscal year after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is adopting SFAS 123R effective January 1, 2006. 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 modified retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock beginning with the first quarter of adoption of SFAS 123R, while the modified retroactive method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company plans to adopt SFAS 123R using the modified prospective method. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations assuming employee grants continue at levels approximating historic practices, although it will have no impact on our overall financial position. We are currently evaluating the impact of this standard, but we estimate the impact of applying the various provisions of FSAS 123R will result in an expense, net of tax of approximately $310,000 during fiscal 2006 related to options granted prior to December 31, 2005. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when the employees exercise stock options), the amount of operating cash flows realized for such excess tax deductions have been significant in the past.

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (the "Jobs Creation Act"). The Jobs Creation Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Jobs Creation Act also provides for a two-year phase-out (except for certain pre-existing binding contracts) of the existing Extraterritorial Income (ETI) exclusion tax benefit for foreign sales, which the World Trade Organization (WTO) ruled, was an illegal export subsidy. The European Union (EU) believes that the Jobs Creation Act fails to adequately repeal the illegal export subsidies because of the transitional provisions and has asked the WTO to review whether these transitional provisions are in compliance with their prior ruling. It is not possible to predict what impact this issue will have on future earnings pending the final resolution of this matter. Additionally, the Jobs Creation Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an eighty-five percent (85%) dividend received deduction for certain dividends from controlled foreign corporations.

On December 21, 2004, FASB Staff Position (FSP) FAS 109-1, "Application of FASB Statement No. 109, *Accounting for Income Taxes"*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, was issued. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special deduction in accordance with Statement 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the date of enactment. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return beginning in 2005. Although formal regulations are still pending, the Company has incorporated the expected impact of the new act in its 2005 tax provision. The impact of the tax act is not material to the 2005 financial statements.

On December 21, 2004, FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," was issued. FSP 109-2 provides companies additional time, beyond the financial reporting period during which the Jobs Creation Act took effect, to evaluate the Jobs Creation Act's impact on a company's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying Statement 109. FSP 109-2 was effective upon issuance. The Company has decided not to repatriate foreign earnings, and accordingly, the financial statements do not reflect any provisions for taxes on unremitted foreign earnings.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets" ("SFAS 153"). SFAS 153 amends the guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate certain exceptions to the principle that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This statement is effective for nonmonetary asset exchanges in fiscal years beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have an impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS 154"). SFAS No. 154 replaces APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements" and establishes retrospective application as the required method for reporting a change in accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management believes that the adoption of SFAS No. 154 will not have a material effect on the Company's consolidated financial statements.

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

In addition to the risks and uncertainties identified elsewhere herein and in documents filed by the Company with the Securities and Exchange Commission, the following factors should be carefully considered when evaluating the Company's business and future prospects: decreases or delays in highway funding; rising interest rates; changes in oil prices; changes in steel prices; downturns in the general economy; unexpected capital expenditures and decreases in liquidity; the timing of large contracts; production capacity; general business conditions in the industry; non-compliance with covenants in the Company's credit facilities; demand for the Company's products; and those other factors listed from time to time in the Company's reports filed with the Securities and Exchange Commission. Certain of the risks, uncertainties and other factors discussed or noted above are more fully described in the section entitled "Business - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of **Astec Industries, Inc**. (a Tennessee corporation) and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the years 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 audits 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Astec Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Astec Industries, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2005, 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 7, 2006, stated that management did not support its evaluation of controls with sufficient evidence, including documentation, and we were unable to apply other procedures to satisfy ourselves as to the effectiveness of the company's internal control over financial reporting. As a result, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion either on management's assessment or on the effectiveness of Astec Industries, Inc. and subsidiaries' internal control over financial reporting.

Grant Thornton LLP

Greensboro, North Carolina
March 7, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Astec Industries, Inc.:

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of Astec Industries, Inc. and subsidiaries for the year then ended, December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 results of Astec Industries, Inc. and subsidiaries operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Chattanooga, Tennessee
February 25, 2004,
except for Note 8, 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 were engaged to audit management's assessment, included in the accompanying Management Assessment Report, that Astec Industries, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Astec Industries Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

An audit of management's assessment that the Company maintained effective internal control over financial reporting includes obtaining an understanding of, and evaluating, management's process for assessing the effectiveness of the Company's internal control over financial reporting. In obtaining an understanding of management's process, we determined that management did not support its evaluation with sufficient evidence, including documentation. Because management's process did not include sufficient evidence, including documentation, we were unable to apply the procedures required to express an opinion on management's assessment and on the effectiveness of internal control over financial reporting.

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.

Since management did not support its evaluation of controls with sufficient evidence that management had adequately completed its assessment, we were unable to apply other procedures to satisfy ourselves as to the effectiveness of the company's internal control over financial reporting. As a result, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion either on management's assessment or on the effectiveness of Astec Industries, Inc. and subsidiaries' internal control over financial reporting.

In performing our procedures, we identified significant deficiencies, that also have been identified and included in management's assessment, which when aggregated constituted a material weakness in the Company's internal controls over financial reporting. Such significant deficiencies in internal controls primarily related to the adequacy of inventory controls, accounting system access controls, journal entry authorization, and monitoring controls at Astec Underground, Inc., a wholly owned subsidiary of the Company. These significant deficiencies were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated March 7, 2006, on those consolidated financial statements.

We do not express an opinion or any other form of assurance on management's statements included in the accompanying Management Assessment Report that referred to the remediation steps taken after December 31, 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Astec Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years then ended, and our report dated March 7, 2006, expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

Greensboro, North Carolina
March 7, 2006

ASTEC INDUSTRIES, INC.
MANAGEMENT ASSESSMENT REPORT

The management of Astec Industries, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control system is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of all internal control systems no matter how well designed. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the preparation and presentation of financial statements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in circumstances or conditions.

During the course of the Company's 2005 annual audit, significant deficiencies in internal controls primarily related to the adequacy of inventory controls, accounting system access controls, journal entry authorization, and monitoring controls related to Astec Underground, Inc., a wholly owned subsidiary of the Company, were identified. When aggregated, these deficiencies represent a material weakness in the Company's internal controls over financial reporting. Management has taken several actions to remedy these significant deficiencies, including making improvements to the steel inventory control and reporting system; initiating additional and remedial training programs; hiring an inventory control specialist for Astec Underground, Inc.; and hiring a new controller for Astec Underground, Inc. Management continues to monitor and evaluate the effectiveness of these remedial actions with regard to these significant deficiencies.

The management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. Based on this assessment, management concluded the Company did not maintain effective internal control over financial reporting as of December 31, 2005.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by Grant Thornton LLP, an independent registered public accounting firm. Grant Thornton has issued a disclaimer of opinion on both management's assessment and the effectiveness of the company's internal controls over financial reporting.

CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 22,597,696	$ 8,348,693
Trade receivables, less allowance for doubtful accounts of $1,877,000 in 2005 and $2,093,000 in 2004	50,853,686	44,215,440
Notes and other receivables	2,541,542	1,073,073
Inventories	135,503,361	126,970,127
Prepaid expenses	7,257,021	8,693,515
Deferred income tax assets	7,212,932	8,498,317
Other current assets	61,952	685,274
Total current assets	226,028,190	198,484,439
Property and equipment, net	96,114,469	96,526,158
Other assets:		
Goodwill	19,361,035	19,125,570
Finance receivables	--	904,950
Notes receivable	60,000	169,655
Assets held for sale	--	4,885,713
Other	5,018,980	4,721,482
Total other assets	24,440,015	29,807,370
Total assets	$ 346,582,674	$ 324,817,967
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit loan	$ --	$ 8,517,253
Current maturities of long-term debt	--	3,309,941
Accounts payable	39,774,568	35,450,855
Customer deposits	12,063,448	10,414,702
Accrued product warranty	5,666,123	4,788,558
Accrued payroll and related liabilities	2,615,827	2,360,841
Accrued loss reserves	6,453,655	7,491,992
Other accrued liabilities	21,473,922	19,661,741
Total current liabilities	88,047,543	91,995,883
Long-term debt, less current maturities	--	25,857,163
Deferred income tax liabilities	4,650,605	7,432,458
Accrued retirement benefit costs	5,109,729	4,828,093
Other	5,440,910	2,873,397
Total liabilities	103,248,787	132,986,994
Minority interest	591,842	575,184
Commitments and contingencies Notes 7, 8 and 13	--	--
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 - 21,177,352 in 2005 and 19,987,503 in 2004	4,235,470	3,997,501
Additional paid-in capital	79,722,952	55,955,647
Accumulated other comprehensive income	2,604,676	3,014,119
Company shares held by SERP, at cost	(1,894,507)	(1,690,711)
Retained earnings	158,073,454	129,979,233
Total shareholders' equity	242,742,045	191,255,789
Total liabilities and shareholders' equity	$ 346,582,674	$ 324,817,967

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2005	2004	2003
Net sales	$ 616,067,723	$ 504,553,751	$ 402,066,282
Cost of sales	482,760,008	401,482,127	336,793,057
Gross profit	133,307,715	103,071,624	65,273,225
Selling, general and administrative expenses	81,971,387	69,891,565	63,948,286
Research and development expenses	11,319,280	8,579,916	7,669,188
Goodwill impairment	--	--	16,260,975
Gain on sale of real estate, net of real estate impairment charge	6,530,884	--	--
Amortization of intangible assets	287,454	266,457	452,572
Income (loss) from operations	46,260,478	24,333,686	(23,057,796)
Other income (expense)			
Interest expense	(4,209,046)	(5,032,878)	(9,094,795)
Senior note termination expense	--	--	(3,836,975)
Interest income	644,280	332,997	750,618
Other income (expense) - net	252,183	(19,011)	(911,919)
Income (loss) from continuing operations before income taxes and minority interest	42,947,895	19,614,794	(36,150,867)
Income taxes on continuing operations	(14,748,366)	(7,020,802)	5,472,400
Income (loss) from continuing operations before minority interest	28,199,529	12,593,992	(30,678,467)
Minority interest	105,308	111,260	33,413
Income (loss) from continuing operations	28,094,221	12,482,732	(30,711,880)
Income from discontinued operations	--	2,319,711	2,733,859
Income taxes on discontinued operations	--	(1,155,404)	(985,984)
Gain on disposal of discontinued operations (net of tax of $5,070,836)	--	5,406,224	--
Net income (loss)	$ 28,094,221	$ 19,053,263	$ (28,964,005)
Earnings (Loss) per Common Share			
Income (loss) from continuing operations:			
Basic	$ 1.38	$ 0.63	$ (1.56)
Diluted	1.34	0.62	(1.56)
Income from discontinued operations:			
Basic	--	0.33	0.09
Diluted	--	0.33	0.09
Net income (loss):			
Basic	1.38	0.96	(1.47)
Diluted	1.34	0.95	(1.47)
Weighted average number of common shares outstanding:			
Basic	20,333,894	19,740,699	19,671,697
Diluted	20,976,966	20,079,349	19,671,697

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	2004	2003
Cash Flows from Operating Activities			
Net income (loss)	$ 28,094,221	$ 19,053,263	$ (28,964,005)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,562,568	10,853,013	12,673,660
Amortization	287,454	266,457	452,572
Provision for doubtful accounts	190,984	592,544	312,021
Provision for inventory reserves	3,088,515	3,426,958	5,304,370
Provision for warranty	10,432,651	8,586,480	7,599,745
Deferred compensation provision (benefit)	1,863,359	491,721	(244,000)
Deferred income tax provision (benefit)	(1,496,468)	4,943,606	(5,508,648)
Impairment charge on real estate not being used	1,183,421	--	--
Gain on disposal of discontinued operations, net of tax	--	(5,406,224)	--
Gain on disposition of assets held for sale	(7,714,305)	--	--
(Gain) loss on disposition of fixed assets	(11,079)	450,081	(1,034,489)
Tax benefit from stock option exercises	5,039,320	262,002	71,819
Purchase of trading security by Supplemental Executive Retirement Plan	(263,190)	--	--
Goodwill impairment	--	--	16,260,975
Minority interest in losses (earnings) of subsidiary	(105,308)	(111,260)	136,967
(Increase) decrease in:			
Trade and other receivables	(8,867,559)	(3,556,365)	6,575,947
Finance receivables	--	121,310	18,714,243
Notes receivables	253,310	78,056	7,004,914
Inventories	(11,291,802)	(21,471,263)	6,291,914
Equipment on operating lease	--	--	6,077,214
Prepaid expenses	1,423,566	(4,648,422)	(2,752,027)
Other assets	493,710	(922,253)	(1,347,012)
Increase (decrease) in:			
Accounts payable	4,679,391	9,912,335	(6,688,461)
Customer deposits	1,637,973	686,642	3,515,342
Accrued product warranty	(9,551,048)	(7,358,121)	(7,744,036)
Refundable income taxes	181,662	(386,591)	6,839,098
Income taxes payable	(4,013)	(1,882,137)	2,220,818
Accrued retirement benefit costs	281,636	(1,037,275)	--
Self insurance loss reserves	(1,038,702)	381,692	2,014,416
Other accrued liabilities	2,401,906	7,464,761	(8,519,779)
Other	354,796	294,674	280,577
Net cash provided by operating activities	32,106,969	21,085,684	39,544,155
Cash Flows from Investing Activities			
Proceeds from disposal of discontinued operations, net	--	23,496,339	--
Proceeds from sale of property and equipment	166,945	1,511,047	1,660,676
Expenditures for property and equipment	(11,629,597)	(11,167,772)	(3,588,297)
Proceeds from sale of assets held for sale	12,589,218	--	--
Cash paid for acquisition of minority shares	(18,835)	(283,369)	(70,776)
Net cash provided (used) by investing activities	1,107,731	13,556,245	(1,998,397)

Includes continuing and discontinued operations

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended December 31,		
	2005	2004	2003
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	$ 18,846,357	$ 2,754,586	$ 382,014
Net borrowings (repayments) under revolving credit loans	(8,517,253)	(19,479,303)	(3,905,306)
Principal repayments of industrial bonds, loans and notes payable	(29,167,104)	(18,180,385)	(95,113,634)
Purchase/sale, net of company shares by Supplemental Executive Retirement Plan	(84,199)	(231,711)	(674,000)
Proceeds from debt and notes payable	--	--	40,122,943
Net cash used by financing activities	(18,922,199)	(35,136,813)	(59,187,983)
Effect of exchange rates on cash	(43,498)	92,477	52,154
Increase (decrease) in cash and cash equivalents	14,249,003	(402,407)	(21,590,071)
Cash and cash equivalents, beginning of year	8,348,693	8,751,100	30,341,171
Cash and cash equivalents, end of year	$ 22,597,696	$ 8,348,693	$ 8,751,100
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 2,559,165	$ 3,890,711	$ 9,213,232
Income taxes (net of refunds)	$ 8,176,320	$ 9,915,939	$ (6,526,586)
Restructure of note receivable:			
Finance receivables	$ --	$ 248,028	$ --
Accounts receivable	--	(248,028)	--
Repossession of rental equipment:			
Inventory	--	270,000	--
Fixed assets	--	(270,000)	--
Intangible assets acquired:			
Other assets	375,000	--	--
Other liabilities	(375,000)	--	--

Includes continuing and discontinued operations

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2005, 2004 and 2003

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Company Shares Held by SERP	Total Shareholders' Equity
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**
Net income				28,094,221			28,094,221
Other comprehensive income (loss):							
Minimum pension liability adjustment, net of income taxes of $107,032					(245,927)		(245,927)
Foreign currency translation adjustments					(297,659)		(297,659)
Unrealized loss on cash flow hedge					134,143		134,143
Comprehensive income							27,684,778
Exercise of stock options, including tax benefit	1,189,849	237,969	23,647,708				23,885,677
Sale (Purchase) of Company stock held by SERP			119,597			(203,796)	(84,199)
Balance December 31, 2005	**21,177,352**	**$4,235,470**	**$79,722,952**	**$158,073,454**	**$2,604,676**	**$(1,894,507)**	**$242,742,045**

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2005, 2004 and 2003

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, 2005 are as follows:

American Augers, Inc.	Astec, Inc.
Astec Insurance Company	Astec Mobile Screens, Inc. (f/k/a Production Engineered Products, Inc.)
Astec Underground, Inc. (f/k/a Trencor, Inc.)	Breaker Technology, Inc.
Carlson Paving Products, Inc.	Breaker Technology Ltd.
CEI Enterprises, Inc.	Johnson Crushers International, Inc.
Heatec, Inc.	Kolberg-Pioneer, Inc.
Roadtec, Inc.	Osborn Engineered Products SA (Pty) Ltd. (91% owned)
Telsmith, 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, 2005, concentrations of credit risk with respect to receivables are limited due to the wide variety of customers.

Inventories - Inventory costs include materials, labor and overhead. 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.

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 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. The Company evaluates sales with multiple deliverable elements (such as an agreement to deliver equipment and related installation services) to determine whether the revenue related to an individual deliverable element should be recognized. In addition to the previously mentioned general revenue recognition criteria, the Company only recognizes revenue on an individual delivered element when there is objective and reliable evidence that the delivered element has a determinable value to the customer on a standalone basis and there is no right of return.

Advertising Expense - The cost of advertising, other than direct response advertising, is expensed as incurred. The Company incurred approximately $2,690,000, $2,474,000 and $2,088,000 in advertising costs during 2005, 2004 and 2003, 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 on a straight-line basis over the period in which revenue related to the trade show is generated, which is normally twenty-four months 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 $1,223,000 and $59,000 as of December 31, 2005 and 2004. Amortized advertising expenses related to presentation and attendance at trade shows were $880,000, $288,000 and $1,418,000 for the years ended December 31, 2005, 2004 and 2003.

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 2005, 2004 and 2003 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 as amended by SEC Rule FR-74 for public companies, 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 at the beginning of the first fiscal year after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is adopting SFAS 123R effective January 1, 2006. 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 modified retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock beginning with the first quarter of adoption of SFAS 123R, while the modified retroactive method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company will adopt SFAS 123R using the modified prospective method. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results of operations assuming employee grants continue at levels approximating historic practices, although it will have no impact on our overall financial position. The Company estimates the impact of applying the various provisions of FSAS 123R will result in an expense, net of tax of approximately $310,000 during fiscal 2006 related to options granted prior to December 31, 2005. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when the employees exercise stock options), the amount of operating cash flows realized for such excess tax deductions have been significant in the past.

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,		
	2005	2004	2003
Net income (loss), as reported	$ 28,094,221	$ 19,053,263	$ (28,964,005)
Stock compensation expense under SFAS No. 123, net of taxes	(618,206)	50,336	(20,594)
Adjusted net income (loss)	$ 27,476,015	$ 19,103,599	$ (28,984,599)
Basic earnings (loss) per share, as reported	$ 1.38	$ 0.96	$ (1.47)
Stock compensation expense under SFAS No. 123, net of taxes	(0.03)	0.01	--
Adjusted basic earnings (loss) per share	$ 1.35	$ 0.97	$ (1.47)
Diluted earnings (loss) per share, as reported	$ 1.34	$ 0.95	$ (1.47)
Stock compensation expense under SFAS No. 123, net of taxes	(0.03)	--	--
Adjusted diluted earnings (loss) per share	$ 1.31	$ 0.95	$ (1.47)

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:

	2005 Grants	2004 Grants	2003 Grants
Expected life	6 years	7 years	8 years
Expected volatility	47.5%	47.8%	47.8%
Risk-free interest rate	3.77%	3.64%	2.94%
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, 2005	2004	2003
Numerator:			
Income (loss) from continuing operations	$ 28,094,221	$ 12,482,732	$ (30,711,880)
Income from discontinued operations	--	6,570,531	1,747,875
Net income (loss)	$ 28,094,221	$ 19,053,263	$ (28,964,005)
Denominator:			
Denominator for basic earnings per share	20,333,894	19,740,699	19,671,697
Effect of dilutive securities:			
Employee stock options	524,740	310,338	--
Supplemental executive retirement plan	118,332	28,312	--
Denominator for diluted earnings per share	20,976,966	20,079,349	19,671,697
Income (loss) from continuing operations:			
Basic	$ 1.38	$ 0.63	$ (1.56)
Diluted	$ 1.34	$ 0.62	$ (1.56)
Income from discontinued operations:			
Basic	$ --	$ 0.33	$ 0.09
Diluted	$ --	$ 0.33	$ 0.09
Net income (loss):			
Basic	$ 1.38	$ 0.96	$ (1.47)
Diluted	$ 1.34	$ 0.95	$ (1.47)

For the years ended December 31, 2005, 2004 and 2003 options of approximately 809,782, 1,621,000 and 2,936,000, 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 hedges 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 revenue, 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, 2005 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.

Recent Accounting Pronouncements - In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs" ("SFAS 151"). SFAS 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is adopting SFAS 151 effective January 1, 2006. The adoption of SFAS 151 is not expected to have a significant impact on the Company's consolidated financial statements.

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (the "Jobs Creation Act"). The Jobs Creation Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Jobs Creation Act also provides for a two-year phase-out (except for certain pre-existing binding contracts) of the existing Extraterritorial Income (ETI) exclusion tax benefit for foreign sales, which the World Trade Organization (WTO) ruled, was an illegal export subsidy. The European Union (EU) believes that the Jobs Creation Act fails to adequately repeal the illegal export subsidies because of the transitional provisions and has asked the WTO to review whether these transitional provisions are in compliance with their prior ruling. It is not possible to predict what impact this issue will have on future earnings pending the final resolution of this matter. Additionally, the Jobs Creation Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an eighty-five percent (85%) dividend received deduction for certain dividends from controlled foreign corporations.

On December 21, 2004, FASB Staff Position (FSP) FAS 109-1, "Application of FASB Statement No. 109, *Accounting for Income Taxes"*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, was issued. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special deduction in accordance with Statement 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the date of enactment. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return beginning in 2005. Although formal regulations are still pending, the Company has incorporated the expected impact of the new act in its 2005 tax provision. The impact of the tax act is not material to the 2005 financial statements.

On December 21, 2004, FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," was issued. FSP 109-2 provides companies additional time, beyond the financial reporting period during which the Jobs Creation Act took effect, to evaluate the Jobs Creation Act's impact on a company's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying Statement 109. FSP 109-2 was effective upon issuance. The Company has decided not to repatriate foreign earnings, and accordingly, the financial statements do not reflect any provisions for taxes on unremitted foreign earnings.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets" ("SFAS 153"). SFAS 153 amends the guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate certain exceptions to the principle that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This statement is effective for nonmonetary asset exchanges in fiscal years beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have an impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS 154"). SFAS No. 154 replaces APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements" and establishes retrospective application as the required method for reporting a change in accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management believes that the adoption of SFAS No. 154 will not have a material effect on the Company's consolidated financial statements.

Reclassifications - Certain amounts for 2004 and 2003 have been reclassified to conform with the 2005 presentation.

2. Inventories

Inventories consisted of the following:

	December 31, 2005	December 31, 2004
Raw materials and parts	$ 65,819,943	$ 58,065,794
Work-in-process	28,601,947	28,772,979
Finished goods	29,701,996	28,810,662
Used equipment	11,379,475	11,320,692
Total	$ 135,503,361	$ 126,970,127

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

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.

4. Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets acquired in business combinations. SFAS No. 142 provides that goodwill and certain other intangible assets 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 the required valuation procedures as of December 31, 2005, 2004 and 2003. To complete the first step of valuation, the Company used discounted cash flows ("DCF") to apply the income approach to indicate potential impairment of goodwill. The DCF method is based on the premise that the value of the reporting unit is the present value of the future economic income or cash flows to be derived by the reporting unit. This method analyzes discretely the three factors which directly determine value: 1) the amount of cash expected to be generated; 2) the timing of the cash flow; and 3) the risks associated with 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 fair value of shareholders' equity was in excess of carrying value, goodwill was considered not impaired and step-two procedures were unnecessary.

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, 2005 and 2004, the valuation indicated no impairment of goodwill. As of December 31, 2003, the valuation indicated impairment of goodwill in five reporting units totaling $16,260,975. 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 acquired 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, 2005, 2004 and 2003 are as follows:

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	Total
Balance, December 31, 2002	**$ 2,086,304**	**$18,316,103**	**$ 3,956,391**	**$11,734,479**	**$36,093,277**
Goodwill impairment	(929,486)	(1,287,010)	(2,310,000)	(11,734,479)	(16,260,975)
Foreign currency translation	--	1,054,782	--	--	1,054,782
Balance, December 31, 2003	**1,156,818**	**18,083,875**	**1,646,391**	**--**	**20,887,084**
Sale of subsidiary	--	(2,438,102)	--	--	(2,438,102)
Foreign currency translation	--	676,588	--	--	676,588
Balance, December 31, 2004	**1,156,818**	**16,322,361**	**1,646,391**	**--**	**19,125,570**
Foreign currency translation	--	235,465	--	--	235,465
Balance, December 31, 2005	**$ 1,156,818**	**$16,557,826**	**$ 1,646,391**	**$ --**	**$19,361,035**

5. 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. During 2005, as part of the Company's periodic review of its operations, the Company assessed the recoverability of the carrying value of certain fixed assets, which resulted in an impairment loss of $1,183,000 on certain real estate currently not being used in the operations of the Company. This loss reflects the amounts by which the carrying value of the real estate exceeded its estimated fair value. This loss is included in operating expenses as a component of "gain on sale of real estate, net of real estate impairment charge" in the consolidated statements of operations. The real estate values and related impairment charge are included in the Asphalt Group for segment reporting purposes. For the years ended December 31, 2004 and 2003, the Company concluded that there had been no significant events that would trigger an impairment review of its other long-lived intangible assets. 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.

Amortization expense for other intangible assets was $287,454, $266,457 and $277,796 for 2005, 2004 and 2003, respectively. Other intangible assets, which are included in Other Assets on the accompanying consolidated balance sheets, consisted of the following at December 31, 2005 and 2004:

	Gross Carrying Value Dec. 31, 2004	Accumulated Amortization Dec. 31, 2004	Net Carrying Value Dec. 31, 2004	Gross Carrying Value Dec. 31, 2005	Accumulated Amortization Dec. 31, 2005	Net Carrying Value Dec. 31, 2005	Weighted Avg. Amortization Period
Dealer network and customer base	$ 820,000	$ (200,158)	$ 619,842	$ 1,220,000	$ (304,305)	$ 915,695	8 years
Drawings	820,000	(200,158)	619,842	820,000	(277,638)	542,362	10 years
Trademarks	336,000	(230,173)	105,827	336,000	(336,000)	--	3 years
Patents	24,000	(24,000)	--	24,000	(24,000)	--	2 years
Total	$ 2,000,000	$ (654,489)	$ 1,345,511	$ 2,400,000	$ (941,943)	$ 1,458,057	8 years

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

2006	$234,961	2009	$234,961
2007	234,961	2010	208,294
2008	234,961		

6. Property and Equipment

Property and equipment consisted of the following:

	December 31, 2005	December 31, 2004
Land, land improvements and buildings	$ 79,624,129	$ 76,698,050
Equipment	117,692,133	111,365,301
Less accumulated depreciation	(101,201,793)	(91,537,193)
Total	$ 96,114,469	$ 96,526,158

Depreciation expense for continuing operations was approximately $10,563,000, $10,302,000 and $11,531,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

At December 31, 2005, the Company had commitments of approximately $6,778,000 for construction and acquisition of property and equipment, all of which are expected to be incurred in 2006.

7. Leases

The Company leases certain land, buildings and equipment for use in its operations under operating leases that expire periodically through 2010. Total rental expense charged to operations under operating leases was approximately $2,073,000, $2,755,000 and $3,550,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

Minimum rental commitments for all noncancelable operating leases at December 31, 2005 are as follows:

2006	$ 1,616,000
2007	1,265,000
2008	843,000
2009	254,000
2010	34,000

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 $0, $45,000 and $662,000 for the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005 the Company did not have outstanding lease receivables and there were no future minimum rental payments to be received for equipment leased to others.

8. Debt

Debt consisted of the following:

	December 31, 2005	December 31, 2004
Revolving credit line of $87,500,000 at December 31, 2005 at a variable interest rate (7.50% at December 31, 2005)	$ --	$ 8,517,253
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), repaid in 2005	--	18,967,104
Industrial Development Revenue Bonds payable in annual installments of $500,000 through 2006 at weekly negotiated interest rates, repaid in 2005	--	1,000,000
Industrial Development Revenue Bonds due in 2028 at weekly negotiated interest rates, repaid in 2005	--	9,200,000
Total debt	--	37,684,357
Less revolving credit loan	--	8,517,253
Less current maturities	--	3,309,941
Total long-term debt less current maturities	$ --	$ 25,857,163

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 could also 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., as discussed further below. 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.

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 $702,485. During the third quarter of 2005, the Company used available cash to pay off the term loan portion of the GE Capital debt early. Due to the early repayment of this loan, the Company expensed approximately $519,000 of related previously unamortized loan fees in the third quarter of 2005 as additional interest expense.

On April 1, 2005, the Company entered into an amendment to the credit agreement with GE Capital that amended interest rates on the Company's revolving and term loan facilities to more favorable rates than those rates under the previous terms. Under this amendment, interest rates are based on applicable index rates plus a sliding scale of applicable index margins from zero to three-fourths of one percent (0.75%), or at the option of the borrower, the LIBOR margin plus an applicable index margin from two percent (2.0%) to two and three-fourths percent (2.75%) based on a level of total funded debt ratio.

In the third quarter of 2005, GE Capital released its security interest in substantially all of the Company's assets except for accounts receivable and inventories.

The Company was in compliance with the financial covenants under its credit facility at December 31, 2005 and 2004.

The Company's Canadian subsidiary, Breaker Technology Ltd, has available a credit facility issued by GE Capital dated May 14, 2003 with a term of four years for $5,000,000 to finance short-term working capital needs, as well as to cover the short-term establishment of letter of credit guarantees. At December 31, 2005 and 2004, Breaker Technology Ltd had no outstanding balance under the credit facility and approximately $294,000 and $284,000, respectively, 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, 2005 and 2004 was $294,000 and $284,000, respectively.

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd. ("Osborn"), has available a credit facility of approximately $3,159,000 (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, 2005 Osborn had no outstanding loan due under the credit facility and had approximately $1,292,000 in performance and retention bonds guaranteed under the facility. The facility is secured by Osborn'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.

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.

9. 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 warranty 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:

	2005	2004
Reserve balance at beginning of period	$ 4,788,558	$ 3,612,930
Warranty liabilities accrued during the period	10,432,651	8,586,480
Warranty liabilities settled during the period	(9,555,086)	(7,410,852)
Reserve balance at end of period	$ 5,666,123	$ 4,788,558

10. Accrued Loss Reserves

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

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 at December 31, 2005 and 2004 for the Company's three post-retirement benefit plans was $1,343,619 and $1,228,446, respectively for the Telsmith, Inc. Retiree Medical and Life Insurance Plan; $321,611 and $373,301, respectively for the Kolberg-Pioneer, Inc. Retiree Life Insurance Plan and Post-retirement Medical Plan; and $95,841 and $90,745, respectively 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	
	2005	**2004**	**2005**	**2004**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 9,671,161	$ 9,038,018	$ 1,546,230	$ 1,764,146
Service cost	--	--	103,737	93,630
Interest cost	535,757	534,445	79,690	85,519
Amendments	--	--	--	(57,108)
Actuarial (gain) loss	338,433	471,308	(33,723)	(231,313)
Benefits paid	(474,169)	(372,610)	(105,604)	(108,644)
Benefit obligation at end of year	10,071,182	9,671,161	1,590,330	1,546,230
Accumulated benefit obligation	10,071,182	9,671,161	--	--
Change in plan assets				
Fair value of plan assets at beginning of year	6,535,560	4,810,665	--	--
Actual return on plan assets	405,031	451,834	--	--
Employer contribution	256,102	1,645,671	--	--
Benefits paid	(474,169)	(372,610)	--	--
Fair value of plan assets at end of year	6,722,524	6,535,560	--	--
Funded status (underfunded)	(3,348,658)	(3,135,601)	(1,590,330)	(1,546,230)
Unrecognized net actuarial (gain) loss	2,656,173	2,303,214	(358,983)	(362,979)
Unrecognized prior service cost	--	--	(46,658)	(51,883)
Unrecognized transition obligation	--	--	234,900	268,600
Net amount recognized	(692,485)	(832,387)	(1,761,071)	(1,692,492)
Accounts recognized in the consolidated balance sheets				
Accrued retirement benefit costs	(3,348,658)	(3,135,601)	(1,761,071)	(1,692,492)
Accumulated other comprehensive loss	2,656,173	2,303,214	--	--
Net amount recognized	$ (692,485)	$ (832,387)	$(1,761,071)	$(1,692,492)
Weighted-average assumptions used to determine benefit obligations as of December 31				
Discount rate	5.41%	5.66%	5.41%	5.66%
Expected return on plan assets	8.00%	9.00%	--	--
Rate of compensation increase	--	--	--	--

The measurement date used for all plans was December 31, 2005.

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

The Company's expected long-term rate of return on assets was 8.0% and 9.0% for 2005 and 2004, respectively. In determining the expected long-term rate of return, the historical experience of the plan assets, the current and expected allocation of the plan assets and the expected long-term rates of return were considered.

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		2005 & 2004 Target
Asset Category	**2005**	**2004**	**Allocation Ranges**
Equity securities	61.3%	64.0%	53 - 73%
Debt securities	29.9%	30.0%	21 - 41%
Money market funds	8.8%	6.0%	0 - 15%
Total	100.0%	100.0%	

The weighted average annual assumed rate of increase in per capita health care costs is nine and one-half percent (9.5%) for 2006 and is assumed to decrease gradually to five and three-quarter percent (5.75%) for 2014 and remain at that level thereafter. A one-percentage point change in the assumed health care cost trend rate for all years to, and including, the ultimate rate would have the following effects:

	2005	2004
Effect on total service and interest cost		
1% Increase	$ 12,000	$ 10,000
1% Decrease	(11,000)	(10,000)
Effect on APBO		
1% Increase	43,000	37,000
1% Decrease	(44,000)	(37,000)

Net periodic benefit cost for 2005, 2004 and 2003 included the following components:

	Pension Benefits			Post-retirement Benefits		
	2005	2004	2003	2005	2004	2003
Components of net periodic benefit cost						
Service cost	$ --	$ --	$365,724	$103,737	$ 93,630	$122,189
Interest cost	535,757	534,445	607,151	79,690	85,519	99,155
Expected return on plan assets	(515,810)	(483,075)	(339,393)	--	--	--
Amortization of prior service cost	--	--	--	(5,225)	(5,225)	--
Amortization of transition obligation	--	--	--	33,700	33,700	33,700
Recognized net actuarial (gain) loss	96,253	48,774	179,080	(37,719)	(44,503)	(32,586)
Net periodic benefit cost	$116,200	$100,144	$812,562	$174,183	$163,121	$222,458
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31						
Discount rate	5.66%	6.25%	6.75%	5.66%	6.25%	6.75%
Expected return on plan assets	8.00%	9.00%	9.00%	--	--	--
Rate of compensation increase	--	--	4.50%	--	--	--

The Company expects to contribute approximately $700,000 to the pension plan and approximately $106,000 to the other benefit plans during 2006.

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

	Pension Benefits	Post-retirement Benefits
2006	$ 422,000	$ 180,000
2007	432,000	238,000
2008	427,000	202,000
2009	440,000	199,000
2010	453,000	169,000
2011 - 2015	2,789,000	1,084,000

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 $2,362,000 in 2005, $2,155,000 in 2004 and $1,931,000 in 2003.

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 previously invested cash contributions in Company common stock that it purchased on the open market; however, under a plan amendment effective November 1, 2004, the participants may self-direct the investment of their apportioned plan assets. Upon retirement, executives may receive their apportioned contributions of the plan assets in the form of cash.

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

	December 31, 2005			December 31, 2004		
	Shares	**Cost**	**Market**	**Shares**	**Cost**	**Market**
Company stock	118,983	$ 1,894,507	$ 3,885,989	112,634	$ 1,690,711	$ 1,938,432
Equity securities	110,466	1,006,079	1,056,126	82,620	681,792	715,770
Total	229,449	$ 2,900,586	$ 4,942,115	195,254	$ 2,372,503	$ 2,654,202

The total fair market values of all assets are included in other liabilities of the consolidated balance sheets. The fair market values of the equity securities are included in other assets of the consolidated balance sheets. The Company stock held by the plan is carried at cost and included in the shareholders equity section of the consolidated balance sheets.

Investment income on equity securities for the years ended in December 31, 2005, 2004 and 2003, consists of the following:

	Year Ended December 31,		
	2005	**2004**	**2003**
Dividend and interest income	$ 58,872	$ 97,639	$ 13,556
Net unrealized holding gains	16,070	22,899	105,873
Net investment income	$ 74,942	$ 120,538	$ 119,429

In May 2004, the FASB issued FSP No. 106-2, Accounting and Disclosure Requirements Related to the Prescription Drug, Improvement and Modernization Act of 2003, which provides authoritative guidance on accounting for the Medicare Act. The Medicare Act provides for a possible federal subsidy of certain prescription drug claims for sponsors of retiree health care plans with drug benefits, beginning in 2006. The Company has determined that the Company's two post retirement medical insurance plans, which provide prescription drug benefits, will not be entitled to the federal subsidy under the Medicare Act. Therefore, management believes the application of the provisions of FSP No. 106-2 will not have a significant impact on the Company's consolidated financial statements.

12. Income Taxes

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

	December 31, 2005		
	2005	**2004**	**2003**
United States	$ 39,938,485	$ 29,023,551	$ (34,295,452)
Foreign	3,009,410	3,388,014	878,444
Income (loss) before income taxes	$ 42,947,895	$ 32,411,565	$ (33,417,008)

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

	December 31, 2005		
	2005	**2004**	**2003**
Current provision (benefit)	$ 16,244,834	$ 8,303,436	$ 1,022,232
Deferred provision (benefit)	(1,496,468)	4,943,606	(5,508,648)
Total provision (benefit) for income taxes	$ 14,748,366	$ 13,247,042	$ (4,486,416)

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

	December 31, 2005		
	2005	2004	2003
Tax at statutory rates	$ 15,031,763	$ 11,343,994	$ (11,361,783)
Benefit from foreign sales	(357,511)	(347,978)	(190,961)
State taxes, net of federal income tax	66,511	866,358	283,920
Goodwill & Intangibles	--	853,336	5,389,411
Other permanent differences	146,976	358,634	343,376
R&D credit	(570,416)	--	--
Change in valuation allowance	(28,606)	269,369	1,049,621
Other items	459,649	(96,671)	--
Income tax provision (benefit)	$ 14,748,366	$ 13,247,042	$ (4,486,416)

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 and 2005 for current year changes in state loss carryforwards totalling $38,462,000 that expire from 2010 to 2021. As of December 31, 2005, 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:

	December 31, 2005	
	2005	2004
Deferred tax assets:		
Inventory reserves	$ 3,198,076	$ 3,165,907
Warranty reserves	1,787,384	1,612,319
Bad debt reserves	608,796	662,665
Federal net operating loss carryforwards	--	--
State tax loss carryforwards	1,608,604	1,665,881
Other	6,497,237	4,924,427
Valuation allowance	(1,290,384)	(1,318,990)
Total deferred tax assets	12,409,713	10,712,209
Deferred tax liabilities:		
Property and equipment	8,079,506	8,578,438
Other	1,767,880	1,067,912
Total deferred tax liabilities	9,847,386	9,646,350
Net deferred tax asset	$ 2,562,327	$ 1,065,859

13. Contingent Matters

Certain customers have financed purchases of Astec products through arrangements in which the Company is contingently liable for customer debt of approximately $10,185,000 and for residual value guarantees aggregating approximately $315,000 at December 31, 2005 and contingently liable for customer debt of approximately $16,262,000 and for residual value guarantees aggregating approximately $1,305,000 at December 31, 2004. The Company's credit facility with General Electric Capital Corporation 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, 2005, guaranteed indebtedness created under the current loan agreement dated May 14, 2003 was $664,000. At December 31, 2005, the maximum potential amount of future payments for which the Company would be liable is equal to $10,500,000. 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.

In addition, the Company is contingently liable under letters of credit of approximately $5,190,000. Under the Company's credit facility, the terms of letters of credit are limited to one year. Under the credit facility of the Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd., the Company is contingently liable for approximately $1,292,000 in performance and retention bonds. As of December 31, 2005, the maximum potential amount of future payments for which the Company would be liable is approximately $6,482,000, none of which is recorded as debt in the accompanying consolidated balance sheet.

The Company is currently a party to various claims and legal proceedings that have arisen in the ordinary course of business. If management believes that a loss arising from such claims and legal proceedings is probable and can reasonably be estimated, the Company records the amount of the loss (including estimated legal costs), or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As management becomes aware of additional information concerning such contingencies, any potential liability related to these matters is assessed and the estimates are revised, if necessary. If management believes that a loss arising from such claims and legal proceedings is either (i) probable but cannot be reasonably estimated or (ii) reasonably possible but not probable, the Company does not record the amount of the loss, but does make specific disclosure of such matter. Based upon currently available information and with the advice of counsel, management believes that the ultimate outcome of its current claims and legal proceedings, individually and in the aggregate, will not have a material adverse effect on the Company's financial position, cash flows or results of operations. However, claims and legal proceedings are subject to inherent uncertainties and rulings unfavorable to the Company could occur. If an unfavorable ruling were to occur, there exists the possibility of a material adverse effect on the Company's financial position, cash flows or results of operations.

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 cash, 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 - 61,396, 2) 1998 Long-term Incentive Plan - 1,643,394, 3) Executive Officer Annual Bonus Equity Election Plan - 16,892 and 4) 1998 Non-employee Directors Stock Plan - 15,747.

A summary of the Company's stock option activity and related information for the years ended December 31, 2005, 2004 and 2003 follows:

	Year Ended December 31,					
	2005		2004		2003	
	Options	**Weighted Avg. Exercise Price**	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Options outstanding, beginning of year	2,745,184	$ 19.23	3,005,657	$ 18.72	3,146,242	$ 18.54
Options granted at market price	224,694	19.42	31,189	14.60	8,262	8.69
Options forfeited	(45,663)	21.68	(49,133)	23.91	(92,847)	19.20
Options exercised	(1,186,786)	15.83	(242,529)	11.36	(56,000)	6.82
Options outstanding, end of year	1,737,429	$ 21.51	2,745,184	$ 19.23	3,005,657	$ 18.72

The exercise price of all options granted in 2005, 2004 and 2003 were equal to the market price of the stock on the grant date. The weighted average fair value of options granted, calculated utilizing the Black-Scholes model, was $9.61, $7.62 and $4.83 for the years ended December 31, 2005, 2004 and 2003, respectively.

The following table summarizes information about the stock options outstanding under the Company's option plans as of December 31, 2005:

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
$4.75 - $9.54	65,051	1 year	$ 5.12	65,051	$ 5.12
$10.49 - $14.43	210,716	5 years	12.99	210,716	12.99
$14.50 - $23.76	571,908	6 years	17.10	352,908	15.68
$24.06 - $36.00	889,754	4 years	27.56	889,754	27.56
Total	1,737,429	5 years	$ 21.51	1,518,429	$ 21.82

The Company has adopted an Amended and Restated 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 $72.00 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 22, 2015. 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 is to be accounted for prospectively. The Company continued to pay variable rate interest under its new debt agreement. The $881,500 in OCI at the swap termination date was amortized into earnings through interest expense over the remaining life of the original hedge because the variable-rate interest obligations continued 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. The remaining balance of OCI related to the swap agreement of approximately $134,000 was amortized through interest expense during 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The 2004 and 2005 amounts have been restated to reflect the sale of Superior Industries of Morris, Inc.

Segment information for 2005

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	$170,205,277	$242,515,086	$112,946,897	$90,400,463	$ --	$616,067,723
Intersegment revenues	10,438,255	23,390,486	2,851,302	36,582	1,097,618	37,814,243
Interest expense	18,205	714,975	48,032	18,826	3,409,008	4,209,046
Depreciation and amortization	3,366,087	3,262,543	1,573,755	2,310,423	337,214	10,850,022
Segment profit (loss)	16,099,291[1]	22,554,539	12,291,303	6,300,698[2]	(28,820,624)	28,425,207
Segment assets	176,629,169	208,815,853	109,131,715	65,998,995	231,066,768	791,642,500
Capital expenditures	1,873,125	4,000,586	1,401,871	3,878,375	475,640	11,629,597

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	486,576	59,694	16,171	4,453,910	5,032,878
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	263,182	28,143	323,249	8,411,445	9,094,795
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)[3]	2,447,643[3]	559,516[3]	(22,003,677)[3]	(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

[1] Asphalt Group segment profit includes a real estate impairment charge of $1,183,421.

[2] Underground Group segment profit includes the gain on the sale of its Grapevine, Texas facility in the amount of $7,714,305.

[3] Goodwill impairment charges included in segment profit (loss) were:

Asphalt Group	$ 929,486
Aggregate and Mining Group	1,287,010
Mobile Asphalt Paving Group	2,310,000
Underground Group	11,734,479

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,		
	2005	2004	2003
Sales:			
Total external sales for reportable segments	$ 616,067,723	$ 504,223,563	$ 400,026,271
Intersegment sales for reportable segments	36,716,625	16,631,145	12,265,861
Other sales	1,097,618	944,188	3,488,388
Elimination of intersegment sales	(37,814,243)	(17,245,145)	(13,714,238)
Total consolidated sales	$ 616,067,723	$ 504,553,751	$ 402,066,282
Profit (loss):			
Total profit (loss) for reportable segments	$ 57,245,831	$ 33,695,252	$ (21,708,538)
Other (loss)	(28,820,624)	(21,204,134)	(9,415,518)
Minority interest in earnings of subsidiary	(105,308)	(111,260)	(33,413)
(Elimination) recapture of intersegment profit	(225,678)	102,874	445,589
Income from discontinued operations, net of tax	--	1,164,307	1,747,875
Gain on disposal of discontinued operations, net of tax	--	5,406,224	--
Total consolidated net income (loss)	$ 28,094,221	$ 19,053,263	$ (28,964,005)
Assets:			
Total assets for reportable segments	$ 560,575,732	$ 550,213,741	$ 490,730,391
Other assets	231,066,768	210,705,197	219,387,200
Elimination of intercompany profit in inventory and leased equipment	(381,234)	(155,556)	(258,430)
Elimination of intercompany receivables	(253,558,866)	(254,374,494)	(201,027,986)
Elimination of investment in subsidiaries	(133,283,656)	(146,869,258)	(149,233,666)
Other eliminations	(57,836,070)	(34,701,663)	(39,624,481)
Total consolidated assets	$ 346,582,674	$ 324,817,967	$ 319,973,028
Interest expense:			
Total interest expense for reportable segments	$ 800,038	$ 578,968	$ 683,350
Other interest expense	3,409,008	4,453,910	8,411,445
Total consolidated interest expense	$ 4,209,046	$ 5,032,878	$ 9,094,795
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	$ 10,512,808	$ 10,152,377	$ 11,076,667
Other depreciation and amortization	337,214	416,116	907,011
Depreciation from discontinued operations	--	550,977	1,142,554
Total consolidated depreciation and amortization	$ 10,850,022	$ 11,119,470	$ 13,126,232
Capital expenditures:			
Total capital expenditures for reportable segments	$ 11,153,957	$ 8,860,083	$ 3,550,837
Other capital expenditures	475,640	2,307,689	37,460
Total consolidated capital expenditures (excluding those for equipment leased to others)	$ 11,629,597	$ 11,167,772	$ 3,588,297

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

	Year Ended December 31, 2005	2004	2003
Asia	$ 1,895,473	$ 5,735,725	$ 985,384
Southeast Asia	6,555,077	12,150,466	14,905,004
Europe	13,059,057	21,163,574	13,488,906
South America	11,231,342	8,478,688	2,789,929
Canada	20,729,916	15,498,076	12,070,626
Australia	6,600,885	6,106,948	9,064,965
Africa	31,733,472	25,562,020	26,378,309
Central America	8,757,345	9,431,789	5,779,787
Middle East	8,525,253	10,068,121	1,970,874
West Indies	6,635,443	1,786,012	5,012,990
Other	506,586	6,634,436	1,222,775
Total	$ 116,229,849	$ 122,615,855	$ 93,669,549

Long-lived assets by major geographic region were as follows:

	Year Ended December 31, 2005	2004	2003
United States	$ 109,535,396	$ 115,600,440	$ 126,835,498
Canada	8,661,016	8,458,294	8,108,205
Africa	2,358,072	2,274,794	1,860,338
Total	$ 120,554,484	$ 126,333,528	$ 136,804,041

17. Finance Receivables

Finance receivables are receivables of Astec Financial Services, Inc. (AFS). The balance at December 31, 2005 of $29,251 is included in Notes and Other Receivables on the Consolidated Balance Sheets. During 2005, AFS reduced financed receivables through normal collections and one $800,610 repossession.

18. Other Comprehensive Income

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

	Year Ended December 31, 2005	2004
Foreign currency translation adjustment	$ 4,278,596	$ 4,576,255
Unrealized loss on cash flow hedge, net of tax	--	(134,143)
Minimum pension liability adjustment, net of tax	(1,673,920)	(1,427,993)
Accumulated other comprehensive income	$ 2,604,676	$ 3,014,119

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. On September 27, 2005, the Company closed on the sale of the vacated Grapevine, Texas facility to Great Wolf Resorts, Inc. for approximately $13,200,000. The assets sold had previously been classified on the consolidated balance sheet as assets held for sale with a book value of approximately $4,886,000. The related gain, net of closing costs, on the sale of the property of approximately $7,714,000 is included in operating expenses as a component of "gain on sale of real estate, net of real estate impairment charge" in the 2005 Statement of Operations. The assets sold and the related gain is included in the Underground Group for segment reporting purposes.

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.

20. Other Income (Expense) - Net

Other income (expense) - net consisted of the following:

	Year Ended December 31,		
	2005	2004	2003
Loss on foreign currency transactions	$ (120,374)	$ (294,674)	$ (553,299)
Relocation costs	--	--	(348,688)
Lease portfolio income	--	--	38,245
Portfolio sale income	--	--	(18,000)
Other	372,557	275,663	(30,177)
Total	$ 252,183	$ (19,011)	$ (911,919)

BOARD OF DIRECTORS AND 2005 COMMITTEES

J. Don Brock, Ph.D
Chairman of the Board, President and CEO
Astec Industries, Inc.
Member of Executive Committee

Phillip E. Casey
Chairman
Gerdau Ameristeel Corp.
Member of Audit Committee and
Compensation Committee

Daniel K. Frierson
Chairman and CEO
Dixie Group, Inc.
Member of Executive Committee and
Nominating / Corporate Governance Committee

William D. Gehl
Chairman of the Board and CEO
Gehl Company
Member of Audit Committee and
Compensation Committee

Ronald F. Green
Chairman
Advatech, LLC
Member of Audit Committee and
Nominating / Corporate Governance Committee

Albert E. Guth
Group Vice President, Administration
and Secretary
Member of Executive Committee

R. Douglas Moffat
President
Moffat Capital, LLC
Member of Compensation Committee and
Nominating / Corporate Governance Committee

William B. Sansom
Chairman and CEO
The H.T. Hackney Company
Member of Audit Committee and
Nominating / Corporate Governance Committee
Lead Independent Director

W. Norman Smith
Group Vice President, Asphalt
President, Astec, Inc.
Member of Executive Committee

Robert G. Stafford
Group Vice President, Aggregate and Mining

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, CPA
Vice President, CFO and Treasurer

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

Robert G. Stafford
Group Vice President, Aggregate and Mining

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

David C. Silvious, CPA
Corporate Controller

SUBSIDIARY OFFICERS

Michael A. Bremmer
President, CEI Enterprises, Inc.

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

Richard J. Dorris
President, Heatec, Inc.

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

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

Tom Kruger
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Alan Odgers
President, Astec Underground, Inc.

Richard A. Patek
President, Telsmith, Inc.

James F. Pfeiffer
VP/General Manager, American Augers, Inc.

Jeffrey L. Richmond
President, Roadtec, Inc.

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

David L. Winters
VP/General Manager, Carlson Paving Products, 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 on April 27, 2006 at 10:00 A.M. EST in the Training Center at Astec, Inc. located at 4101 Jerome Avenue, Chattanooga, TN 37407.


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