



2002 Annual Report

FINANCIAL OVERVIEW

(in thousands, except as noted *)



	2002	2001	2000	1999	1998
Operating Results					
Net sales	\$480,590	\$455,839	\$520,688	\$449,627	\$363,945
Net income (loss)	(4,706)	1,992	26,281	31,712	24,436
Financial Position					
Working capital	\$173,224	\$161,867	\$153,389	\$127,569	\$81,865
Shareholders' equity	193,432	197,347	194,623	167,258	132,658
Per Common Share*					
Net income					
Basic	\$(0.24)	\$0.10	\$1.37	\$1.66	\$1.30
Diluted	(0.24)	0.10	1.33	1.59	1.26
Book value per common share at year end	9.83	10.07	10.07	8.75	7.44
Other Data					
Weighted average number of common shares outstanding					
Basic	19,658	19,442	19,222	19,065	18,799
Diluted	19,658	19,753	19,721	19,930	19,441
Common shareholders-approximate*	5,500	6,000	6,100	4,200	4,156
Associates*	2,772	2,854	3,301	2,975	2,285

DEAR FELLOW SHAREHOLDERS:

Two thousand-two was a difficult year for our Company. Sales for 2002 were \$480.6 million compared to \$455.8 million in 2001. Net loss for the year was \$4.7 million versus a net income of \$2.0 million for 2001. Our bottom line was significantly affected by increased interest costs and fees imposed on us by our bank and senior lenders group, the move of our Trenchor facility from Grapevine, Texas to Loudon, Tennessee, and depressed margins due to pricing pressures in a down market.

After September 11, 2001 our business was frozen for almost two months. This resulted in a large quarterly loss for the fourth quarter of 2001, placing us in violation of two bank-lending group covenants. The covenants were based on a rolling four quarters, and because of that we were unable to correct this situation and have continued to violate the covenants for four quarters in a row. This resulted in increased interest rates and additional fees required for amending the loan.

As we prepared our 2003 plan, it became obvious that current 2002 economic conditions would continue into 2003 and operational changes were required. For that reason the management of the Company implemented a plan to reduce both debt and expenses as quickly as possible. The closing of Astec Financial Services, our finance company, was the first step in the implementation of this plan. When we started Astec Financial approximately six years ago, interest rates were low and our profitability was strong. The increase in interest rates imposed by the lenders during 2002 made the rates offered by the finance company non-competitive. In addition, the debt of the finance company added considerably to the leverage of the Company. The closing of Astec Financial is enabling us to de-leverage the Company. We are arranging with equipment finance companies to perform the functions that Astec Financial had been providing for our manufacturing subsidiaries.

We also began a program of reducing expenses at all levels of the Company, from Corporate through each subsidiary. We anticipate that the plan will result in a significant reduction in expenses. This plan was implemented during the fourth quarter of 2002; however, the full effect will not be felt until after the second quarter of 2003.

Our Underground Group consisting of Trenchor and American Augers has lost money during the last two years due to the significant downturn in the telecom, utility and pipeline market. We have downsized both of these operations. In an effort to improve the overall performance of this group, we entered into a strategic alliance with Case-New Holland to manufacture its trencher line. This line of trenchers, along with the Case brand directional drills, fits very well with the line of trenchers and directional drills built by Trenchor and American Augers. Trenchor and American Augers historically have supplied the market with the largest drills and trenchers, while Case-New Holland and two other competitors have built the smaller models. Our direct sales approach has not been effective in selling our mid-size machines. While the direct sales method works well for the large, low-volume equipment, we did not have sufficient coverage to sell our smaller machines (100-300 hp range). The alliance with Case gives us access to their dealer network and a much larger outlet for our machines.

In May of 2002, while in negotiations with Case, a developer offered us \$24 million for our Trenchor facility in Grapevine, Texas, near Dallas. Concurrent with this, John Deere decided to move its skid steer loader line from Loudon, Tennessee to one of their existing plants in Iowa, making the four-year old Loudon facility available for purchase. The 300,000 square feet includes 30,000 square feet of office space and a 10,000 square feet training center. It is equipped with modern metal working machinery and a state-of-the-art powder coat paint system. In November of 2002, we closed the deal to buy the John Deere facility in Loudon, Tennessee and during the fourth quarter moved both the Case and Trenchor lines into this facility. Our first trenchers were manufactured at this plant in January of 2003.

Unfortunately, prior to the closing of the John Deere facility, the developer that was to purchase the Trenchor plant was unable to get sufficient investors to close the purchase. We believe that the

sale of this facility would have given us a \$19 million gain and eliminated violation of the covenants of our lending agreement. With the purchase of the John Deere facility, the Case line, and the expenses incurred with moving the equipment, we have expended approximately \$20 million to purchase and to get the new Loudon facility into operation. While we will continue to attempt to sell the Trencor plant in 2003, our debt has increased an additional \$20 million without the sale of the Grapevine property. In essence the plan was good, but the timing was terrible. However, we believe that long-range this will prove to be a very good move for our Company.

We believe our industry has a great future and we are positioning Astec to continue in its market leader position. On the following pages we talk about the vision for our industry along with the vision and model for our Company. We believe that building trust with our customers, giving the best service in the industry, and building the most innovative products are essential for the long-range success and growth of our companies.

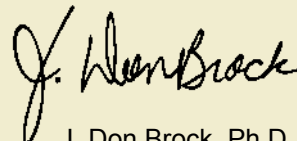
While 2002 was a disappointing year we continued to develop new products. We produced a new state-of-the-art computerized control system for our asphalt facility line, and a similar system for our crushing plants. We developed a new state-of-the-art line of burners for our asphalt facilities which will meet the most stringent environmental requirements in California. Our Systems Group obtained a major project at the Atlanta Airport and large projects in Georgia and Arkansas. Our Kolberg-Pioneer and JCI operations developed a highly portable crushing plant capable of being erected and placed into operation in four hours after arriving at the job site. We completed the sale and installation of two of these facilities during the year. Roadtec developed two new models of milling machines and two new models of pavers. Each of our Companies continues to make product improvements in an effort to provide more value to our customers and lower customers' operating costs.

During the year we had one of the largest exhibits at the ConExpo/ConAgg exhibition. ConExpo is the largest equipment show held every three years in Las Vegas, Nevada. Approximately 120,000 visitors came to the exhibits.

We operate in a cyclic business. While the present cycle has lasted much longer than any of us expected, we believe this too will pass and we will come through it a much stronger Company for the future. With the uncertainties of Iraq, the U.S. economy, corporate scandals, Venezuela's oil situation and the questionable highway funding, it is difficult to be too optimistic for 2003. However, with a replacement parts business of approximately \$100 million per year, the most innovative equipment in the industry, the most dedicated employees, and our loyal customers, we believe that we will see improvement in 2003 and again be able to grow in 2004.

We appreciate the patience and support of each of you as stockholders of the Company and assure you that the management group is doing everything in their power to operate as efficiently as possible.

Yours very truly,



J. Don Brock, Ph.D.
Chairman, President & CEO

VISION 2020

FIX AMERICA - FIX THE ROADS.

Resolve Gridlock and Allow Growth

In 1956 the United States began the construction of our American interstate system. This unique system has been the driving force in the continuing growth of our economy over the last fifty years. Economic growth is dependent upon the ability to move goods rapidly and efficiently to all areas of the country. It is estimated that truck traffic will double in the next ten years. In many areas our highway system is in gridlock now. With ever increasing demands on the system, gridlock will become more widespread and serious. Inability to move goods efficiently will eventually have an increasingly negative effect on our economy.

THE FACTS.

American Freight on American Highways

Seventy-six percent of the freight in America moves by truck. Trucks have become the warehouses of our manufacturing enterprises. When traffic cannot move, trucks cannot move, inventory cannot move and inefficiency occurs.

Safety and American Roads

Each year 42,000 people are killed on our roads. This means 115 people per day die in fatal traffic accidents in the United States. Two and one half million persons are injured each year, which means an astonishing 6,850 drivers or passengers get hurt on our roads each day. An average of 5,000 fatal crashes involve passenger vehicles colliding with heavy trucks.

It is estimated that traffic accidents cost the economy 230 billion dollars per year. The hidden costs created by the congestion from these accidents add another 70 billion dollars, bringing the total cost caused by lack of safety to a whopping 300 billion dollars each year.

THE NEW VISION.

A System for Economic Growth

To achieve increased safety and to refurbish our highway system so it can meet the demands of growth, a new idea is being discussed in our industry and among our legislators: a new system of roads for trucks only, built on existing right-of-ways or parallel to existing interstates. These commercial roadways would serve as the new generation of economic development corridors. And, if we can reduce accidents and congestion by twenty percent, an estimated sixty billion dollars per year would cease draining from our economy.

A System for Increased Safety in Travel

Professional truck drivers generally are the most experienced, safest drivers on the road. By separating them into dedicated truck lanes, the accident rate of trucks would go down significantly because heavy rigs would not be intermingling with automobiles, which generally have less experienced drivers. Traffic accidents and related injuries and fatalities would be significantly reduced if we could separate truck traffic from passenger automobiles. Automobile accidents would be potentially less fatal because there would be no collisions with large and heavy trucks.

A System Made up of Longer Lasting, Smoother Roads

Roads built exclusively for heavy truck traffic would be built with sufficient structural strength to support the heavy loads of the future.

Existing roads and interstates would require one third of the maintenance and last three times longer than they do now if heavy truck traffic were removed from them. One truck traveling down a road creates as much wear and damage as many hundreds of automobiles.

A system designed for current and future needs, both those of motorists and truckers, would allow us to keep the existing and new systems in a much better state of repair with much smoother surfaces. As outlined in the following paragraphs, the benefits arising from quality roads of sufficient capacity would make the system self-funding.

FUNDING OF THE FUTURE.

Direct and Indirect Savings

Tests at the National Center of Asphalt Technology (NCAT) have shown that on smoother roads vehicles consume five percent less fuel. At \$1.50 per gallon, this would increase the utility of a gallon of fuel by 7.5 cents. It is estimated that the reduction in tire wear would be around one-half cent per gallon, and reduction in vehicle maintenance cost was calculated to be one cent per gallon of fuel used.

By adding these factors, smoother roads would increase the value of a gallon of fuel to the motorist by six percent. However, if the estimated 60 million dollar cost savings generated by reduced traffic accidents were calculated into the total, then smoother roads would let us enjoy an overall cost reduction of 46.5 cents per gallon of fuel used.

Return on Investment

By increasing the overall gas tax by ten cents per gallon, the entire system could be built over a twenty-year period. This investment in the future of our country will pay for itself almost immediately, as the numbers outlined above show. An improved interstate freeway system, where heavy trucks are separated from automobile traffic, would improve the productivity of our country and give our economy the ability to grow. It would improve the safety of our people while giving them the freedom of mobility, which is the backbone of our American society.

A WELL-MAINTAINED AND SAFE ROAD SYSTEM ENSURES OUR FREEDOM

In just one hundred years of the automobile playing a major role in our American way of life, we have come over dirt roads, paved two-lane highways, paved two-lane highways with reinforced shoulders and wider lanes, four-lane roads, and finally to the interstate freeway. This interconnecting system of roads is the major part of our infrastructure and a driver of economic growth. As unimaginable as it seems to live without the personal freedom our system of roadways provides us, we often take it for granted.

One only needs to recall the effects of insufficient infrastructure. In the former Soviet Union, crops rotted in the fields or in warehouses because there was no distribution network to get them to the people's tables. In the People's Republic of China, where they are just now beginning to build modern roads, albeit in disconnected sections, this lack of pathways controls the movement of the people.

In the United States we are fortunate enough that any of the 200,000,000 automobiles and 3,400,000 trucks can, for the most part, move unimpeded throughout the nation.

THE NEW GENERATION OF PAVEMENTS.

Asphalt Roads Are Not What They Used to Be

Most of us spend little time contemplating the asphalt roadway that takes us to work and play each day. The only time awareness of what we are riding on may become more than a blip on our mental radar screen is when we are sitting in a traffic jam suffering from varying degrees of frustration, when our car thumps into a pothole, or during inclement weather. Hot mix asphalt has been used for a hundred years to reinforce routes of travel in the United States. It has been much the same recipe for most of that time: crushed rock and liquid asphalt, heated up and mixed together.

In the last fifteen years the road building industry has come a long, long way, a fact of which the general public seems largely unaware. The industry is interesting in that each of the fifty states is responsible for overseeing the construction of roads in their jurisdiction. So we end up with a multitude of specifications and standards of quality, not to mention the fact that local materials are used in making the hot mix asphalt. Rock in Minnesota will be very different from that used in Texas.

However, things are changing. We know now how to build smooth roads that last virtually forever. Still, this information doesn't often flow freely across state lines from one department of transportation to another.

A New Scientific Approach

We now have technology to predict pavement performance and to employ much more sophisticated mix design methods. This new technology is catching the attention of more and more states because of the undeniable benefits it provides.

In the last few years asphalt roads have increased in smoothness to an amazing degree. Technology such as the use of lasers on paving machines, new paving techniques using material transfer vehicles, new laboratory tools that allow research and, finally, better quality control and assurance practices have all contributed to provide the traveler with a safer, smoother, more pleasant ride. And this new generation of roadway helps vehicles consume less fuel, and saves on vehicle maintenance cost and tire wear.

The increased focus on quality and durability has helped road builders develop the next generation of long-lasting, smooth pavement. Called perpetual pavement, the roadway is constructed in laminated layers with different types of mix used in each layer to achieve the greatest strength.

Perpetual pavement is durable and, with proper maintenance, can last indefinitely. These roads will not come apart as the highways of the past. To maintain surface smoothness, only the surface is renewed every few years. That's like the difference between microsurgery and a lengthy, invasive procedure. And today virtually all asphalt removed from roadways before resurfacing is being recycled immediately, conserving natural resources and energy. Besides smoothness, these modern pavements also have exceptional strengths to support heavy loads, and they reduce tire noise by up to seven decibels compared to traditional roads.

Astec Industries has been an innovator on the equipment side of the equation of supplying our citizens with quality and safety in roadways. And when it comes to our products we place priority on new and better technology under proven and not-so-new assumptions.

ASTEC INDUSTRIES: OUR BUSINESS MODEL

Those of us who have been in business for a while may find it interesting to try and recall all the numerous management books and management business models that have come and gone over the years. One only needs to look at the business section in any bookstore to see the number of new offerings. Many of the new fads, the flavor of the moment, seem to offer some simple solutions for quick success and outdoing the competition. Business leaders will merely have to strategize and develop corporate structures that automatically get the job done without anyone having to get their hands dirty in the details of running a business.

One popular current business model is that of outsourcing. Apply this model to making a product and you don't manufacture anything yourself. You just assemble. You don't give much service, eliminate all the engineers, build simple, non-innovative equipment, and sell cheap while eliminating people and factories.

If this model is correct, then the Astec model is totally wrong.

Our business philosophy and business model may be old-fashioned but we still believe in the day-to-day blocking and tackling. We believe in doing a good job, enjoying what we do, and most of all helping the customer with whatever problem he has, whether it is related to the sale of equipment or not.

We believe that the core purpose of our company is to build equipment that will improve the world's infrastructure. Hopefully, the equipment we build will make the world a better place to live. And when we are gone from this world, we hope we will have left it better than it was when we arrived.

The core values of our company are:

1. Continuous devotion to meeting the needs of our customers. The job of any employee within our company should be to serve the customer. Whatever his problems and needs might be, we should never forget that the customer pays our bills.
2. Honesty and integrity in all aspects of our business. In simple terms, do what you say you are going to do, regardless of whether it's in writing or regardless of the consequences. If we make a promise, we do our utmost to stand behind it.
3. Respect for all individuals. The job of everyone in a company is important. If your job is sweeping the floor, the floor needs to be swept. That job is equally as important as other jobs in the company.
4. Preserving innovation and focus through decentralization. We build over 167 different products and none of them are high volume products. This effort requires intense interest in individual customer needs. It requires a vibrant entrepreneurial spirit, combined with a strong product focus, to take those products and make them the best in the industry—capable of being more user-friendly and capable of doing a better job to help reduce the customer's cost. Only through decentralization and product focus can we continuously improve our products.
5. The ability to make a profit. Running a profitable and growing company is necessary to ensure the company's success and continued existence. Our customers want us to make a profit because they want us to be around to serve them for many years.

These core values are the timeless guiding principles by which Astec Industries runs and will continue to run in the future. They are not simply words; they are the actions that you will see from our people and our management.

Shareholders benefit from these principles because we believe that if our employees feel they have the resources and support they deserve, then they will take care of our customers. Satisfied customers bring the funds into the organization, which clearly benefits our shareholders.

The products we build are considered “niche” products. They require special design, special attention, and in-depth training on how they should be operated. The history of the mistakes we have made, which are often stored in the heads of our employees, are essential to the long-term continuity of our businesses. Our people are our greatest resource. We have learned from our mistakes, but we must have the continuity to remember what we have learned and to pass it on to the next generation.

Our philosophy is to design, engineer, manufacture, build, and service products. If we can outsource cheaper than we can build it, we need to re-look at our manufacturing techniques. We do exactly that on a daily basis.

We continue to innovate and develop new products. We believe that it is our job to develop new products long before our customers even realize their need for them. We want to provide for our customers equipment that will reduce their operating costs and improve quality so they can make their product even better. To do this requires a commitment for the long-term benefits of our industry. Building quality products requires an investment in engineering, product development, and R & D. The end result will improve the quality of life on our planet.

Our business philosophy may be old-fashioned, but we believe it is correct. And we plan to train future generations to continue to do that old-fashioned blocking and tackling, attending to the details every day to serve our employees, customers, and shareholders.



asphalt group



**mobile asphalt
paving group**



**aggregate
& mining group**



**underground
group**





ASTEC SYSTEMS, INC.

Chattanooga, Tennessee

Turnkey Modular Plant Systems
Sales, Design, Installation,
Check-out and Start-up of
Complete Systems

Astec Systems combines the expertise and products from the Astec Industries companies to offer producers turnkey, modular aggregate crushing and sizing plants along with other specialized, large-scale equipment.

Astec Systems' exclusive modular design minimizes the complexity of field erection while allowing each system to be tailored to specific needs and applications.

A high profile and ambitious project under construction in Atlanta, Georgia uses custom equipment designed and built by Astec companies. The expansion of the Hartsfield International Airport includes construction of a fifth runway. Forty-two million tons of fill material have to be moved to create the level area needed for the runway. Some of the fill material is traveling five miles over long conveyors that are part of the Astec supplied facility. The installation's specified nominal capacity is six thousand tons of material per hour and production rates of nine thousand two hundred tons per hour have been achieved.

Astec Systems products and services are expected to produce increasingly significant revenues by offering customers highly efficient and productive state-of-the-art systems delivered for a fixed price, on time, in a turnkey installation.

Astec Systems, Inc.



4101 Jerome Avenue
Chattanooga, TN 37407
(423) 867-4210
www.astecinc.com



1200 tons per hour crushing and wet screening plant.



Modular screening and crushing tower.



Modular twin dry screening towers in the Bahamas.



Modular wet screening plant in Tennessee.



Atlanta's Hartsfield International Airport fifth runway addition.



Crushing and sizing plant in Arkansas.



TELSMITH, INC.

Mequon, Wisconsin

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

Founded in 1906, Tel-smith, Inc. is a leader in the development of processing equipment for the aggregate and mining industry. In 2002 the expansion plans for the state-of-the-art SBS Cone Crusher and Iron Giant Jaw Crusher product lines were successfully completed, resulting in increased market share for both products. Additionally in 2002 Tel-smith received patent rights for its jaw crusher hydraulic relief and clearing system and the Tel-smith modular plant concept. Demand for both products continues to grow as the market becomes aware of the construction and operating cost benefits associated with these products.

New product development continues to be the focus for Tel-smith into 2003. A prototype cone crusher, the largest Tel-smith product yet, is scheduled to go into operation the second quarter of 2003. This new machine will set the standard for future designs as well as expand Tel-smith market opportunities.

In 2003 Tel-smith will strengthen its continuous improvement efforts by completing the scheduled upgrade to ISO 2000 certification. Completion is planned for the second quarter of 2003.

Dedication to customers is an ongoing Tel-smith commitment. Tel-smith seeks to continuously provide superior service and support for its customers. To achieve this, Tel-smith will continue with its unique program to permanently locate factory-trained service personnel in strategic locations around the country, providing prompt, expert customer service and support.

Tel-smith, Inc.



10910 N. Industrial Drive
Mequon, WI 53092
Phone: (262) 242-6600
www.tel-smith.com



In-pit portable secondary scalping and crushing plant located in Mexico.



52SBS and 57SBS cone crushers arranged on modular structures to share a common discharge belt.



Modular screen tower for a Tel-smith 8' x 20' triple deck screen utilizes roll-away chutes.



Turnkey Tel-smith 3-stage crushing plant located outside Atlanta, GA.



Telsmith 5060 Iron Giant modular primary crushing station.



Side by side Telsmith model 57SBS cone crushers.



Dual-shaft 6' x 20' triple deck screen, on a modular tower with roll-away chutes, feeding a 52SBS cone crusher.



KOLBERG-PIONEER, INC.

Yankton, South Dakota

**Jaw Crushers
Vertical Shaft Impactors
Horizontal Shaft Impactors
Washing & Sand Classification Equipment
Portable Crushing and Screening Plants
Portable and Stationary Conveyors
Portable Plants-Fast Pack®
Track Mounted Crushers**

Kolberg-Pioneer and JCI share a common sales force and marketing effort while maintaining individual engineering-production facilities. The two companies' product lines complement each other, giving the resulting dealer distribution channel access to the broadest line of aggregate processing equipment available from a single source. Kolberg-Pioneer & JCI are a one-stop-shop for end users in the crushed stone, sand & gravel, and recycle industries.

In 2001-2002 Kolberg-Pioneer and JCI engineers jointly developed an entirely new concept for the aggregate industry. Building on many of the proven concepts Astec has successfully introduced into the portable asphalt Plant market, the companies have developed a high-capacity, portable crushing/screening/stockpiling plant, aptly referred to as Fast Pack®, that can be moved in just hours, versus days for a more traditional plant.

Kolberg-Pioneer, Inc.



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



Pioneer "Vanguard series" jaw crushers are the industry leader in terms of production.



The Pioneer track mounted crusher at a recycling job in the Baltimore area.



A complete sand classifying system producing specification materials in Pennsylvania.



The Fast Pack® crushing spread in Colorado. This innovative plant sets up in under 5 hours and will produce 500 TPH of 6 spec products.



JOHNSON CRUSHERS INTL., INC.

Eugene, Oregon

Cone Crushers
Horizontal Screens
Portable Plants-Fast Pack®
Portable Crushing and Screening Plants

The Fast Pack incorporates JCI's innovative Kodiak® crusher. This crusher has been a great success since its introduction and lets operators benefit from many patented improvements.

Fast Pack has been field-proven this past year by United Materials, an Oldcastle company. Significant cost reductions were realized by United Materials in set-up and operating costs. This, plus the increased capacity of the Fast Pack assures fast payback of the producers' investment in the Fast Pack.

The Fast Pack design has also attracted the interest of stationary producers. Typical stationary plants have difficulty in responding to short-term market opportunities because of the expense and lead-time required to increase capacity. With a Single Fast Pack, which can be split into as many as 3 separate crushing spreads, owners of multiple facilities can utilize one Fast Pack as a portable asset, easily moving in additional capacity when required.

The companies anticipate that as more producers understand the value in a Fast Pack design, additional orders will follow and are currently stepping up marketing efforts to promote this innovative new concept.

Johnson Crushers Intl., Inc.



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



The Kodiak K400 operating in New England.



JCI introduced the revolutionary Combo Screen in 2002, The above unit is operating on Catalina Island, Los Angeles, California.



The Fast Pack® system uses on-board combination discharge/transfer conveyors that are hydraulically operated, requiring no support or extra loads.





BREAKER TECHNOLOGY, LTD.

Thornbury, Ontario, Canada

BREAKER TECHNOLOGY, INC.

Solon, Ohio and Riverside, California

Hydraulic Breakers

Hydraulic & Mechanical Demolition Attachments

Vibratory Compactors

Stationary & Portable Rockbreaker Systems

Mobile Rockbreakers

Underground Mine and Quarry Utility Vehicles

Breaker Technology's diverse line of products continues to grow and be adapted to the specific needs of the aggregate, construction, demolition and mining markets.

Versatility, safety and productivity have been achieved with the design and manufacture of the new MBS Series of portable rockbreakers. The TC Series of hydraulic compactors has been expanded with the TC-ME models, suited for installation on mini-excavators. The TB-XC Series of boxed housing hydraulic breakers was introduced in 2002, offering new benefits, while retaining reliability and simplicity of design. The MCP and CCP Series of hydraulic and mechanical pulverizers were enhanced with a unique replaceable tooth design, allowing each tooth to be easily replaced or changed in the field.

Breaker Technology engineers provide custom-fit solutions unique to the industry. From the SX Trailer System, able to latch into multiple workstations in different areas of a mine, to the ALBT ANFO loading vehicle with two 2,000 lbs storage tank capacity and rear folding spread outriggers, or the FLV fork lift vehicle with 13,000 lbs lift capacity, innovative solutions are our forte.

With four decades of success, Breaker Technology continues to build on its reputation for rugged equipment, engineered for long life, low maintenance and ease of service.

Breaker Technology, Ltd.



35 Elgin Street
Thornbury, Ontario, Canada
N0H 2P0
Phone: (519) 599-2015
www.rockbreaker.com



A diverse line of attachments from breakers and compactors to pulverizers and shears.



Optimum breaking of oversize underground with the unique mobile rockbreaker systems



Heavy duty, low profile utility vehicles developed for use as underground workhorses.



Boom systems range from low profile portable systems to the world's largest rockbreaker.



OSBORN ENGINEERED PRODUCTS SA (PTY) LTD.

Johannesburg, South Africa

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

Osborn's product offering includes machines, replacement parts, factory rebuilds, idlers and project systems. In 2002 these products combined in the award of a contract for a turnkey primary crushing tip system and associated conveyors from one of South Africa's large mining groups. The plant will go into production in the first quarter of 2003.

Also 2002 saw the introduction of the 27H, a small high-capacity cone crusher. It was shown first at the ConExpo/ConAgg Convention in Las Vegas and then in September at the ElectraMining Show in Johannesburg. This crusher complements Osborn's existing range and has exciting potential.

Osborn formed a sales and marketing agreement with RollerBrake™ to install this innovation in Osborn Idlers. The anti-rollback device reduces runback in the event of belt breakage and supplements conventional anti-runback devices which are mounted on the head-pulley but have no effect if the belt breaks.

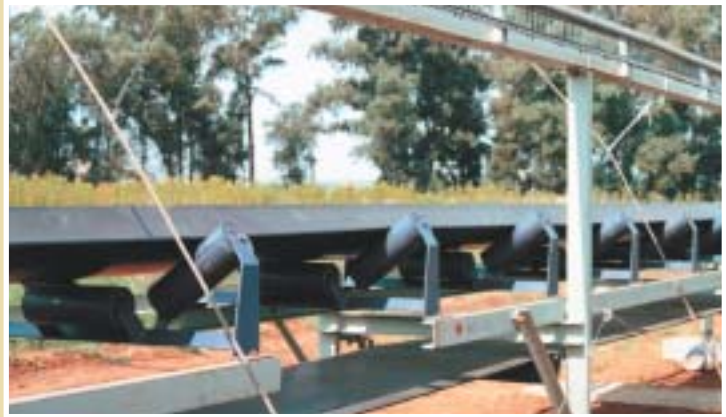
The 2002 independent audit reconfirmed Osborn's ISO 9001 listing and to this we added the environmental ISO 14000 accreditation. In 2003 Osborn intends to convert ISO 18000, which along with ISO 14000 will create an integrated SHE system.

Parts and Machine Repairs reached nearly 40% of Osborn's total revenues in 2002 and reflect Osborn's continued striving to deliver excellent customer service.

Osborn Engineered Products



57 Jansen Road
Elandsfontein 1406
South Africa
Phone: 011-27-11-820-7600
www.osborn.co.za



Conveyor system at a plant in Meyerton, South Africa.



Osborn IFE Excitor driven vibrating Screen.



Osborn cone crusher.



Impact idler bed.



SUPERIOR INDUSTRIES OF MORRIS, INC.

Morris, Minnesota

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

Superior Industries continues to advance an extensive line of portable and stationary conveying equipment, conveyor idlers, and conveyor pulleys.

In 2002, product development included several new products as well as improvements to existing product lines. New products include Extender Series conveyors, the automatic belt sampling system, and mine-duty pulleys. Advancements with the automation of the TeleStacker conveyor product line allows for a multitude of uses such as precision bin loading, barge loading, and unique configurations of stockpiles. These products along with the entire product line of Superior Industries have been engineered to increase productivity levels of construction aggregate producers around the world.

Superior Industries of Morris, Inc.



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



Stationary conveyor system.



Automatic belt sampler.



Full line of idlers and pulleys.



Extender series transfer conveyor.



PRODUCTION ENGINEERED PRODUCTS, INC.

Sterling, Illinois

**Mobile Screening Plants
Portable and Stationary Screening Plants
High-Frequency & Conventional
Vibration Screens**

In 2002, PEP continued to build on their strong reputation for innovative solutions to material processing by offering a complete line of portable and stationary screening equipment. Major markets PEP serves include aggregate, construction, recycling and mining operations. The centerpieces of their product line remain the Vari-Vibe® and Duo-Vibe® high frequency screens. The focus for the entire product line is bringing quality, cost and economic advantage to producers in their material processing operations.

This past year PEP's product development focus was aimed at the redesign of the Fold 'n Go® series of mobile screening equipment to further enhance product quality and performance. The coming year PEP expects to introduce track mounted mobile screens in their Fold 'n Go® series to further expand its broad product line. In addition, PEP improved screen performance with new electric vibrators for stationary screens and enhanced all screening equipment with heavier duty side plates for reduction in wear costs and improved life.

Due to the economic advantages incurred by dry screening and the creation of new markets from waste products, aggregate producers look to PEP for processing solutions. The demand for recycling asphalt grows each year and PEP is well positioned with its technical expertise, customer support and product offering to meet these challenges and more in the coming years.

Production Engineered Products



2704 West LeFevre Road
Sterling, IL 61081
Phone: (815) 626-6374
www.pepscreen.com



Fold N' Go® mobile screening plant.



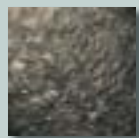
PSP mobile screening plant.



PTSC portable screening plant.

Structure with Duo-Vibe®
dual-frequency screens.





ASTEC, INC.

Chattanooga, Tennessee

Stationary, Relocatable and Portable Hot Mix Asphalt Plants

Control Systems

Testing and Quality Control Products

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

In 2002 Astec, Inc. launched several new products with exciting potential. Among these is a broad line of asphalt and aggregate sampling and testing equipment. Pavement Technology, now a department of Astec Inc., develops these products.

The asphalt and aggregate industry will not be "business as usual" in the future. Suppliers will be required to warranty their products and test them for acceptance. Pavement Technology is positioned to meet these needs in the coming years.

Also new for Astec, Inc. in 2002 was the development of the burner group. Astec, Inc. now manufactures its own burners instead of purchasing them. The group has successfully introduced the WhisperJet® burner. The burner's distinguishing features include quiet operation and extremely low emissions.

During the year the controls group of Astec, Inc. successfully launched a new facility control system. The Total Control 2000 (TC 2000) gives producers more precise control over their processes than ever and therefore lets them enjoy higher efficiency and profitability.

Astec, Inc.'s unyielding focus on product development and improvement and its top-notch customer support has enabled this company to be the market leader in its field.

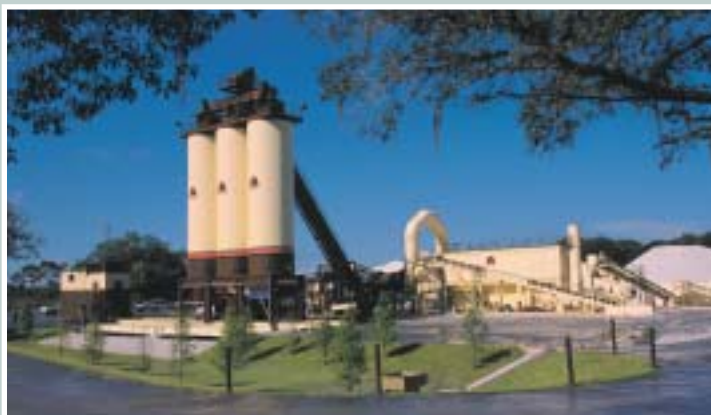
Astec, Inc.



4101 Jerome Avenue
Chattanooga, TN 37407
(423) 867-4210
www.astecinc.com



The Turbo Six Pack is Astec's well-known portable facility.



The relocatable M-Pack facility provides mix storage.



Batch plants are usually installed near large metro areas.



The Whisper-Jet® is a new generation low-emission, low-noise burner.



Astec's Double Barrel drum mixer dries the material in the inner drum and mixes asphalt in the outer shell.



Part of the real-time quality control system from Astec's PTI group



The Astec RocDoc™ lab provides material analysis.



The new TC 2000™ control system operates the plant via PC.



HEATEC, INC.

Chattanooga, Tennessee

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

In 2002 Heatec developed products to reduce startup time at hot mix asphalt plants. This resulted in Heatec's advanced TriTec™ heater. Its output is almost double that of a conventionally designed heater of the same size. The TriTec heater can be installed on Heatec's Heli-Tank™ RR unit, a combination heater and portable asphalt tank. The combination delivers fast startup times and high operating efficiency.

Also new for 2002 was the production of a new storage tank for asphalt emulsions. The tank is designed primarily for use at county and state DOT facilities. Heatec recognizes the potential for growth in this area due to the wide use of asphalt emulsions by county and state DOT agencies to repair roads.

During the year Heatec explored new applications for its helical coil heaters. One such application is in the ready-mix concrete industry at United Ready-Mix in Peoria, Illinois where heating aggregate stockpiles enhances a plant's ability to sell concrete year-round.

Heatec continued building products for offshore oil drilling. The company produced a highly advanced heating system for Samedan-Enercon. The system incorporates Allen-Bradley computers. Allen-Bradley computers allow more extensive flame safeguard programming than previous systems.

Heatec, Inc.



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



TriTec 3-pass heater installed on the gooseneck of a Heli-Tank RR unit.



Heating system for Samedan-Enercon offshore platform includes two heaters, expansion tank, piping, and control panel.



Ready-mix producer in Peoria, Illinois uses a Heatec heater to heat sand stockpiles for mixing concrete during winter.



Heatec 6,000 gallon tank for asphalt emulsion includes gauge board, caged ladder, and motor-driven internal mixer.



CEI ENTERPRISES, INC.

Albuquerque, New Mexico

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

CEI Enterprises manufactures thermal fluid heaters, storage tanks, and calibration and metering systems for the asphalt industry. CEI, long known for quality and reliability in tanks and heaters, is now gaining a larger share of the small portable hot mix asphalt plant market. The NOMAD™ compact hot mix plant is now being offered both domestically and internationally in two sizes, 80 TPH and 130 TPH.

The RAMT asphalt/rubber blending system and reaction tank continues to be the world's leader in ground tire rubber recycling. CEI is currently developing a way to increase production of its asphalt/rubber blending equipment by 50 percent. The equipment enables ground tire rubber to be blended with liquid asphalt to produce a quieter, more resilient road surface.

Heatec and CEI provide the heating and liquid material storage needs for producers all over the country and abroad. CEI's strategic location in the western part of the U.S. allows it to serve this geographical area in particular. CEI is able to supply product support and parts service quickly and efficiently to producers all over the West.

CEI Enterprises, Inc.



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



Portable asphalt tank with jacketed firebox heater and agitators.



Storage tanks for asphalt, polymer modified asphalt, and fuel oil.



CEI's jacketed firebox heater provides reliable, efficient heating for all plant components. Outputs range from 1.2 to 6.3 million BTU/hr.



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



ROADTEC, INC.

Chattanooga, Tennessee

Cold Planers

Cold In-Place Recycling Machines

Sidecutter Attachments

Rubber Tire and Track-Driven Asphalt Pavers

Shuttle Buggy® Material Transfer Vehicle

Road Widener Attachments

Roadtec designs, manufactures and markets a complete line of mobile asphalt paving and cold planing equipment. In 2002 Roadtec developed several new machine designs, which will come to market before the end of the first quarter of 2003. A more compact, lighter 4-track cold planer in the half-lane category will make its debut in March 2003 along with a new low-profile design, high-way-class asphalt paver. Based on the very successful 150 class commercial pavers introduced in 2001 and 2002, this new paver is seen as having the potential to increase Roadtec's market share in that category even more.

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

Roadtec, Inc.



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



Revolutionary SB 2500C Shuttle Buggy® material transfer vehicle.



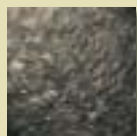
RP 150 asphalt paver features an 8 ft. paving width and shorter wheelbase.



RP 185-10R rubber-track asphalt paver allows for maximum tractive effort.



The RX-60 C is a high-horsepower, high-production cold planer that easily converts from half lane to full lane, providing excellent productivity and reliability in either configuration.



CARLSON PAVING PRODUCTS, INC.

Tacoma, Washington

Cold Planers

Screeds for Highway Class and Commercial Asphalt Pavers

During 2002 Carlson Paving Products continued to lead in the field of paver screed technology in the asphalt industry. With its tradition of customer-driven product enhancements Carlson successfully kept ahead of the competition. Performance improvements, especially with the screed heat systems, were accomplished without abandoning Carlson's tradition of easily operated and easily maintained equipment. Customer responses and increased sales are encouraging signs and indeed Carlson's market share in screeds, its core product, increased in 2002.

Marketing efforts include two screed demonstration trucks and a new mobile demonstration unit to showcase the CP1220 utility cold milling machine. During 2002, Carlson also introduced the TR100 trench roller, a specialized compactor used in road widening projects. In addition to these current additions to the product line, there are plans to introduce two new models in 2003.

Carlson Paving Products, Inc.



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



Specially fitted demonstration truck to show contractors how the Carlson EZ III™ and EZ IV™ operate.



New Carlson CP 1220 utility cold milling machine working in Portland, OR.



Carlson EZ III™ screed has been updated to a new 34 kW generator for faster heat-up time.



ASTEC UNDERGROUND, INC.

Trencor, Inc.

Loudon, Tennessee

American Augers, Inc.

West Salem, Ohio

Trenchers

Horizontal Earth Boring Machines

Horizontal Directional Drills

Drilling Fluid Mixing, Cleaning and Recycling Systems

Downhole Tooling for Auger Boring and HDD Equipment

During 2002, Astec Industries, Inc. signed a strategic alliance agreement with Case Corporation and along with its Trencor and American Augers subsidiaries formed the new Astec Underground.

Astec Underground will produce the current line of eight Case trenchers, two horizontal directional drills, HDD fluid mixing systems and down hole tools. With this new strategy selected models of trenchers and directional drills from Trencor and American Augers will be sold exclusively through the Case global dealer network which provides them with the largest product offering available in the underground market today.

Commitment to the underground construction market has also been demonstrated by the acquisition of a 300,000 square-foot facility which will serve as the principal manufacturing site for trenchers. Both the Case trencher line and the Trencor products will be produced in this facility.

Astec Underground, Inc.



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



West Salem, Ohio



Astec's DD-10 horizontal directional drill is one of the products available exclusively through the Case Global Dealer Network.



The Trencor 1260 HD trencher can cut trenches up to 12 ft. deep and 42" wide.



The Astec 72-1200 auger boring machine is the first true 72" boring machine available on the market today.



Astec Underground also produces the popular CASE line of utility trenchers, like the CASE 660 shown above.

The Loudon facility features state-of-the-art laser cutting machines, robotic welders and a high volume powder-coat painting system. These features, along with a large training center dedicated to operator and service training, will enable Astec Underground to become one of the major forces in this industry.

With the combination of these product lines and the ability to distribute through the Case dealer network, Astec Underground has solidified its position as the world's leading manufacturer of auger boring machines, directional drills and trenchers. This new strategy will enhance Astec Underground's ability to support and service the customer. The new distribution channel will also enable Astec Underground to fully leverage over eighty years of application expertise.

During 2003 Astec Underground plans to assist and support their new distribution base as well as design new products and enhance those they currently produce for the industry. The largest models will continue to be sold direct from the manufacturer.

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

Installing utility lines along a highway.



American Augers' MCM-9000 is the newest product addition in drilling fluid mixing, cleaning and recycling systems.



The American Augers' DD-Million Eighty is one of the most powerful horizontal directional drills ever manufactured.



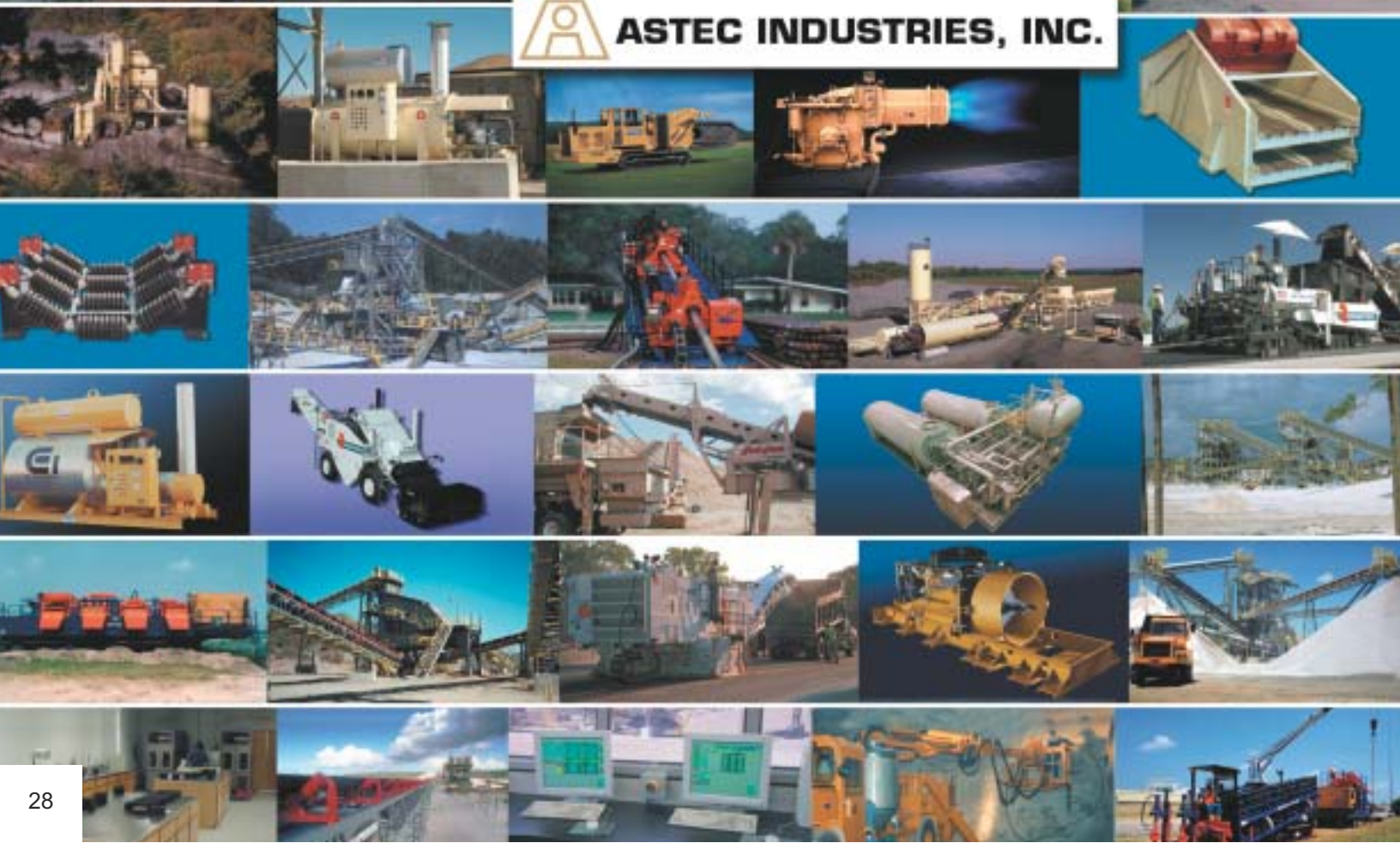
American Augers and Astec Underground horizontal directional drills are known throughout the world for their quality and reliability.



Technological innovations and applications expertise have made Trencor the world leader in large trenchers over 300 horsepower.



ASTEC INDUSTRIES, INC.



SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except as noted*)

	2002	2001	2000	1999	1998
Consolidated Income Statement Data					
Net sales	\$ 480,590	\$ 455,839	\$ 520,688	\$ 449,627	\$ 363,945
Selling, general and administrative expenses	72,407	71,691	69,011	56,280	46,796
Relocation and start-up expenses	3,277				
Research and development	7,631	7,448	6,726	5,356	4,681
Income from operations	616	11,784	47,138	52,521	40,427
Interest expense	10,474	9,367	8,652	4,253	2,709
Net income (loss)	(4,706)	1,992	26,281	31,712	24,436
Earnings (loss) per common share*(1)					
Basic	(.24)	.10	1.37	1.66	1.30
Diluted	(.24)	.10	1.33	1.59	1.26
Consolidated Balance Sheet Data					
Working capital	\$ 173,224	\$ 161,867	\$ 153,389	\$ 127,569	\$ 81,865
Total assets	416,503	400,691	398,795	355,437	248,320
Total short-term debt	3,220	2,368	1,986	596	646
Long-term debt, less current maturities	130,645	127,285	118,511	102,685	47,220
Shareholders' equity	193,432	197,347	194,623	167,258	132,658
Book value per common share at year-end*(1)	9.83	10.07	10.07	8.75	7.44

Quarterly Financial Highlights (Unaudited)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002	Net sales	\$ 122,442	\$ 126,669	\$ 126,100	\$ 105,379
	Gross profit	27,876	26,625	20,762	8,668
	Net income (loss)	4,635	2,407	(1,438)	(10,310)
	Earnings (loss) per common share*				
	Basic	.24	.12	(.07)	(.52)
	Diluted	.23	.12	(.07)	(.52)
2001	Net sales	\$ 143,310	\$ 126,287	\$ 103,124	\$ 83,118
	Gross profit	31,323	29,422	17,192	12,986
	Net income (loss)	5,303	4,953	(1,346)	(6,918)
	Earnings (loss) per common share*				
	Basic	.27	.26	(.07)	(.35)
	Diluted	.27	.25	(.07)	(.35)

Common Stock Price*

2002 High	\$18.10	\$19.80	\$16.48	\$11.00
2002 Low	9.30	14.73	8.30	8.45
2001 High	\$ 14.81	\$ 19.17	\$ 19.27	\$ 15.86
2001 Low	12.00	12.00	11.25	11.91

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 any 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 5,500.

(1) Restated for 1998 and prior to retroactively reflect the two-for-one stock split effected in the form of a dividend on January 18, 1999.

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

Results of Operations; 2002 vs. 2001

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" in the Company's Form 10-K.

The Company experienced a net loss for 2002 of \$4,706,000, or \$.24 per diluted share, a decrease of \$6,698,000, compared to net income of \$1,992,000, or \$.10 per diluted share in 2001. The weighted average number of common shares outstanding at December 31, 2002 was 19,658,032 compared to 19,753,226 at December 31, 2001.

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

Domestic sales increased from \$364,428,000 in 2001 to \$401,284,000 in 2002, an increase of \$36,856,000, or 10.1%. Domestic sales are generated primarily from equipment purchases made by customers for use in construction for privately funded infrastructure development and public sector spending on infrastructure development. Public sector spending at the federal, state and local levels is driven in large part by federal spending under the six-year federal-aid highway program, the Transportation Equity Act for the 21st Century ("TEA-21") enacted in June 1998. TEA-21 authorized the appropriation of \$217 billion in federal aid for road, highway and bridge construction, repair and improvement and other federal highway and transit projects for federal fiscal years October 1, 1998 through September 30, 2003. During 2002, domestic sales continued to be impacted by a general economic slowdown throughout the year. Sales increased in the asphalt group and the aggregate group. In the asphalt group, parts sales, international sales, used equipment and Systems jobs sales increased. Systems sales were the primary reason for the sales increase.

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

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

Gross profit decreased to \$83,931,000, or 17.5% of net sales in 2002, compared to \$90,924,000, or 20.0% of net sales in 2001. A lack of utilization of capacity, decreased sales volumes (except aggregate and asphalt), competitive price pressure, cost overruns on Systems jobs that were completed in 2002 and write down of used equipment resulted in a reduction in gross profits in 2002 compared to 2001 for all segments except aggregate.

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

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

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

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

The backlog at December 31, 2002 was \$60,698,000, compared to \$70,061,000 at December 31, 2001 (restated to reflect the addition of the Case New Holland trencher line). The backlog for asphalt group orders, aggregate orders and underground group orders decreased while backlog for mobile equipment increased. The Company is unable to determine whether this backlog effect was experienced by the industry as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

We are unable to assess the amount of the impact attributable to the TEA-21 legislation, which became effective in October 1998. While the backlog reflects a decline in sales, management believes that this is reflective of the current economic conditions in the United States and the current hesitancy of the Company's customers to commit to capital equipment purchases. The hesitancy is a result of uncertainty of our customers regarding economic conditions, concern relating to highway funding by the states, lack of sufficient TEA-21 federal funding, concern over possible war impacts and concern over the increase in the price of oil.

TEA-21 funding in 2003 has been set at \$31.6 billion as compared to \$31.8 billion in 2002. Unquestionably, increased funding is needed to restore the nation's highways to a quality level required for safety, fuel efficiency and mitigation of congestion.

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

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

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

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

Results of Operations; 2001 vs. 2000

Net income for 2001 was \$1,992,000, or \$.10 per diluted share, a decrease of \$24,289,000, or 92.4%, compared to net income of \$26,281,000, or \$1.33 per diluted share in 2000. The weighted average number of common shares outstanding at December 31, 2001 was 19,753,226, compared to 19,721,288 at December 31, 2000.

Net sales for 2001 were \$455,839,000, a decrease of \$64,849,000, or 12.5%, compared to net sales of \$520,688,000 in 2000. Excluding acquisitions, total sales declined \$87,380,000, or 16.8%, to \$433,308,000 in 2001 from \$520,688,000 in 2000.

The 2001 domestic sales decreased from \$457,189,000 to \$364,428,000, a decrease of \$92,761,000, or 20.3%, from 2000. Domestic sales are generated primarily from equipment purchases made by customers for use in construction for privately funded infrastructure development and public sector spending on infrastructure development. During 2001, domestic sales were negatively impacted by a general economic slowdown and delays in capital expenditures by our customers whom the Company believes were concerned as to when the economy would improve. The Company believes that the terrorist attacks somewhat paralyzed sales order activity for six to eight weeks. The negative impact from the economic slowdown was felt throughout the year.

International sales in 2001 increased \$27,912,000, or 44.0%, to \$91,411,000, compared to 2000 international sales of \$63,499,000. Increased sales in South Africa (Osborn acquisition), Europe, Central America, China, Korea, Japan and South America comprise most of the increase over 2000. Excluding acquisitions in South Africa, international sales increased \$10,875,000, or 17.1%. Sales in the asphalt, mobile asphalt paving and aggregate segments accounted for the increase in Europe. The increase in Central America was due to aggregate, underground and mobile asphalt paving segment sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Parts sales increased from \$83,860,000 in 2000 to \$93,493,000 in 2001, an increase of \$9,633,000, or 11.5%. The increase was primarily due to the mobile asphalt paving and asphalt segments. Both segments have focused heavily on parts sales improvements. Excluding acquisitions, parts sales increased 4.7%.

Gross profit decreased to \$90,924,000, or 20.0% of net sales in 2001, compared to \$122,875,000, or 23.6% of net sales in 2000. A lack of utilization of capacity, decreased sales volumes (except mobile asphalt paving) and competitive price pressure resulted in all segments having reduced gross margins.

In 2001, selling, general and administrative expenses increased to \$71,691,000, or 15.7% of net sales from \$69,011,000, or 13.3% of net sales in 2000. The SG&A increase was the result of two acquisitions in the fourth quarter of 2000 being included in 2001 for a full twelve months. Excluding the increase from the acquisitions, SG&A would have decreased slightly in 2001 from 2000. Excluding increases in legal fees, legal settlements and bad debt expenses related to one large repossession, the Company's SG&A expense would have reflected the expense reductions made throughout 2001.

Research and development expenses increased by \$722,000, or 10.7%, from \$6,726,000 in 2000 to \$7,448,000 in 2001. Excluding the increase in research and development resulting from acquisitions in 2000, research and development increased 4.3% as the Company continued developing innovative products.

Interest expense for 2001 increased to \$9,367,000, or 2.1% of net sales, from 8,652,000, or 1.7% of net sales for 2000. The increased dollar amount related primarily to interest on borrowings required for acquisitions in 2000 and increased working capital. The increased percentage amount was impacted by decreased sales volume.

Income tax expense for 2001 was \$1,481,000, or 41.2% of pre-tax income, compared to \$16,441,000, or 38.5% in 2000. The non-tax deductible items in 2001 had a greater impact on the effective tax rate percentage relative to a smaller pre-tax income.

The backlog at December 31, 2001 was \$64,934,000, compared to \$89,552,000 at December 31, 2000. The backlog for asphalt plant orders, aggregate orders, aggregate systems and mobile equipment decreased. The Company is unable to determine whether this backlog effect was experienced by the industry as a whole. We are unable to assess the amount of the impact attributable to the TEA-21 legislation, which became effective in October 1998. While the backlog reflects a decline, management believes that this is reflective of the current economic conditions in the United States and the current hesitancy of the Company's customers to commit to capital equipment purchases. The hesitancy is a result of our customers awaiting improvement of economic conditions or the awarding of new contracts for jobs. The total value of highway contracts increased by \$1.1 billion, or 3.6%, in 2001 as reported by the American Road and Transportation Builders Association in January 2002. The number of contracts put in place in 2001 declined, but the average size increased. Some contracts are multi-year contracts. Highway funding in 2002 is dependent upon funding of highway programs by the states, TEA-21 federal funding and the economy, which we expect to have a gradual recovery.

Forecasts by the Office of Management and Budget and the Treasury Department indicate a decline in funding for TEA-21 in 2003. Legislation has been introduced to restore part of the \$8.6 billion projected shortfall and legislative efforts are underway to restore the entire shortfall. Unquestionably, increased funding is needed to restore the nation's highways to a quality level required for safety, fuel efficiency and mitigation of congestion.

Asphalt Group: For 2001, this segment had a decrease in sales of \$45,149,000, or 24.0%, to \$142,674,000 from \$187,823,000 for 2000. The asphalt segment experienced a decrease in profit of \$12,975,000, or 72.1%, to \$5,022,000 for 2001 compared to \$17,997,000 for 2000. The primary reason for the decrease in sales is the economic downturn. Competitive price pressure and lack of utilization of capacity significantly impacted gross profits and segment income.

Aggregate and Mining Group: For 2001 sales for this segment decreased \$8,063,000, or 4.2%, to \$182,868,000 from \$190,931,000 for 2000. Excluding acquisitions, sales declined \$25,102,000, or 13.1%. The decline in domestic sales, due to the weakness of the U.S. economy, was partially offset by increased international sales. For 2001 segment profit decreased \$10,907,000, or 59.4%, to \$7,460,000 from \$18,367,000 for 2000. Competitive price pressure, lack of utilization of capacity and product mix impacted gross profit and segment income.

Mobile Asphalt Paving Group: For 2001 sales in this segment increased \$15,220,000, or 24.1%, to \$78,488,000 from \$63,268,000 for 2000. Excluding acquisitions, sales increased \$9,727,000, or 15.4%. Both domestic and international sales increased over 2000 levels. For 2001 segment profit increased \$677,000, or 8.1% to \$9,021,000 from \$8,344,000 for 2000. Product mix, lack of utilization of capacity and increased SG&A expenses impacted the 2001 profit.

Underground Group: The 2001 sales in this segment decreased by \$27,093,000, or 35.8% to \$48,655,000 from \$75,748,000 for 2000, primarily due to fewer small machine sales to the communications industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Segment profit for 2002 decreased \$11,673,000, or 170.8%, to a loss of \$4,837,000 from a net profit of \$6,836,000 for 2000, due primarily to a lack of utilization of capacity and increased selling expenses from efforts focused on generating sales to offset the negative impact of the communications industry.

Liquidity and Capital Resources

Total short-term borrowings, including current maturities of long-term debt, were \$3,220,000 at December 31, 2002, compared to \$2,368,000 at December 31, 2001. A financing agreement for imported, purchased inventory items accounted for \$886,000 and \$964,000 of the short-term borrowings at December 31, 2002 and 2001, respectively, while outstanding Industrial Development Revenue Bonds accounted for \$500,000 of the current maturities of long-term debt at December 31, 2002 and December 31, 2001. Net cash provided by operating activities for the twelve months ended December 31, 2002 was \$32,837,000 compared to \$1,452,000 for the twelve months ended December 31, 2001. The increase in net cash provided by operating activities is primarily due to decreases in inventory and trade receivables, along with increases in trade accounts payable and other accrued liabilities during 2002.

Long-term debt, less current maturities, increased to \$130,645,000 at December 31, 2002 from \$127,285,000 at December 31, 2001. At December 31, 2002, \$80,000,000 was outstanding under the Note Purchase Agreement, \$31,902,000 was outstanding under the revolving credit facility and \$21,300,000 was outstanding under the long-term principal portion of Industrial Revenue Bonds. The increase in debt from December 31, 2001 related primarily to funding working capital needs for the Company.

On September 10, 2001, the Company entered into an unsecured \$125,000,000 revolving loan agreement with a syndicate of banks, which expires on September 10, 2004. At December 31, 2002, the Company was utilizing \$31,902,000 of the amount available under the credit facility for borrowing and an additional \$21,300,000 to support outstanding letters of credit (primarily for industrial revenue bonds). At the time of entering into the credit facility, Astec Industries, Inc. was able to borrow up to \$105,000,000 while Astec Financial Services, Inc., the Company's captive finance company, was able to borrow up to \$50,000,000, with the total borrowing by both companies limited to \$125,000,000. Advances to Astec Financial Services, Inc. under this line of credit were limited to "Eligible Receivables" of Astec Financial Services, Inc. as defined in the credit agreement that governs the credit facility.

Principal covenants under the loan agreement include (i) the maintenance of minimum levels of net worth, leverage and fixed charge coverage ratios, (ii) a limitation on capital expenditures and rental expense, (iii) a prohibition against the payment of dividends and (iv) a prohibition on large acquisitions except upon the consent of the lenders. There is a provision in the loan agreement allowing the borrowing of \$10,000,000 from any source for needs beyond the revolver provisions.

As of December 31, 2001, the Company was not in compliance with two financial ratio covenants contained in its credit facility. These covenant violations were waived by a required majority of the members of the Company's banking syndicate effective December 31, 2001. On March 12, 2002, the Company executed the first amendment to the credit facility, which decreased the maximum amount available from \$125,000,000 to \$100,000,000, relaxed certain financial ratio covenants for 2002, provided security for the lenders in certain situations, and added a .375% interest rate surcharge, and waived the violations of financial ratios under the original agreement. A second amendment to the credit agreement, dated May 13, 2002, waived non-compliance of the financial covenants for the quarter ended March 31, 2002 and amended the leverage ratio sliding scale on which interest and various fee rates are determined. Borrowings under the credit facility, as amended by the second amendment to the credit agreement, bear interest at a rate equal to the London Interbank Offering Rate ("LIBOR") plus from 1.0% to 3.25%, depending on the leverage ratio as defined by the credit agreement and applied to the sliding scale. On August 7, 2002, the Company entered into a third amendment to the credit agreement. The third amendment waived non-compliance with the leverage and fixed charge coverage ratio covenants as of June 30, 2002.

At September 30, 2002 the Company and Astec Financial Services were not in compliance with the leverage and fixed charge coverage ratio covenants of the amended revolving credit facility. On October 24, 2002, the Company and Astec Financial Services entered into a forbearance agreement with its lenders under the credit agreement and Bank One, NA, as agent under the credit agreement. Under the forbearance agreement, among other things, (i) the total commitment available to the Company and Astec Financial Services under the credit agreement was reduced from \$100,000,000 to \$75,000,000 and (ii) the Company was prohibited from making any acquisitions, other than specified acquisitions pursuant to agreements to which the Company had already entered. On November 14, 2002, the Company entered into the fourth amendment to the credit facility, which waived the violations of financial ratios for the quarter ended September 30, 2002; decreased the maximum commitment available from \$75,000,000 to \$58,200,000; relaxed through June 30, 2003 the two financial ratio covenants that were breached as of September 30, 2002; added a minimum earnings before interest expense, income tax expense, depreciation, and amortization covenant for the fourth quarter of 2002; provided additional security to the lenders in the form of real estate mortgages on certain of the Company's property;

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

limited the amount of additional funds available for working capital purposes to \$5,000,000 above the approximately \$53,200,000 that was outstanding under the credit facility as of November 13, 2002; allowed the lenders to receive \$19,200,000 from the sale of the Trenchor facility (a sale which did not transpire) to pay off the \$8,000,000 letter of credit that will be used to retire the industrial revenue bonds on the Trenchor facility and to repay \$11.2 million of debt that was advanced by the lenders to purchase the John Deere facility; required proceeds from sales of lease portfolio assets to be used to repay the outstanding amounts under the credit facility; and reduced the aggregate commitment under the credit facility going forward by the amount of proceeds received by the Company for sales of assets.

At December 31, 2002, the Company was not in compliance with the leverage and fixed charge coverage ratios of the amended credit facility.

On March 31, 2003, the Company entered into a fifth amendment to the credit facility, which among other things, waived non-compliance with certain financial ratio covenants for the quarter ended December 31, 2002 and the quarter ended March 31, 2003; increased the maximum commitment available under the amended credit facility to \$60,700,000; amended existing financial ratio covenants with which the Company was not in compliance as of December 31, 2002 and the quarter ended March 31, 2003 and added certain other financial covenants; added an excess cash-flow sweep that requires the funding of a \$23,720,000 collateral account by May 31, 2003 with the amount of the collateral account increasing each month until it reaches \$52,230,000 by December 31, 2003; limits fixed asset expenditures to certain agreed upon limits; and prohibits the Company from making additional loans to its customers for the purchase of equipment or entering into equipment leases with its customers without the consent of the lenders.

The Company intends to enter into a new credit facility in order to refinance the obligations under the existing credit agreement and the senior secured note and is currently in active negotiations with potential lenders regarding such a facility.

In the event the Company does not enter into a new credit facility, management believes the Company will remain in compliance with the amended covenants during 2003, however, no assurances can be provided that financial ratio covenant violations under the current credit agreement will not occur in the future or, if such violations occur, that the members of the Company's banking syndicate will not elect to pursue their contractual remedies under the amended credit agreement, including requiring the immediate repayment in full of all amounts outstanding. There can also be no assurance that the Company can secure adequate or timely replacement refinancing to repay its banking syndicate in the event of an unanticipated repayment demand.

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd., has available a credit facility of approximately \$1,750,000 to finance short-term working capital needs and an additional \$1,750,000 available to cover the short-term establishment of letter of credit performance guarantees. As of December 31, 2002, Osborn Engineered Products had no outstanding cash balance due under the credit facility, but had approximately \$1,308,000 in performance and retention bonds guaranteed under the facility. The Company's Canadian subsidiary, Breaker Technology Ltd., has available a revolving line of credit of approximately \$1,000,000 to finance short-term working capital needs using their local currency. As of December 31, 2002, Breaker Technology Ltd. had no outstanding amount under the credit facility.

On September 10, 2001, the Company and Astec Financial Services, Inc., entered into a note purchase agreement for \$80,000,000 of senior secured notes, placed with private institutions, due September 10, 2011 at a fixed rate of interest of 7.56%. On September 10, 2005 and on each September 10 thereafter, the Company must make a principal payment of \$11,428,571. Interest will be due and payable semiannually on each March 10 and September 10. As part of this agreement, the Company must maintain certain net worth and fixed charge coverage ratios.

On March 12, 2002, the Company executed the first amendment to the note purchase agreement to relax certain financial ratio covenants for 2002 and to provide additional security for the note holders in certain situations. The first amendment to the note purchase agreement also added a 0.375% interest rate surcharge and waived the violations of financial ratios under the original agreement. The second amendment to the note purchase agreement, executed May 13, 2002 and effective April 1, 2002, waived the financial covenant violations as of March 31, 2002. It also included a .375% to 1.375% interest rate surcharge applied on a sliding scale based on the covenant calculation each quarter if the original covenant ratios are not met. At June 30, 2002, the Company was not in compliance with the leverage and fixed charge coverage covenants of the senior note agreement. These covenant violations were waived by a majority of the note holders as part of the third amendment to the note purchase agreement dated August 14, 2002. The rate at which the senior subordinated note indebtedness accrues interest did not change from that stated in the second amendment. On November 14, 2002, the Company entered into the fourth amendment to the note purchase agreement, which relaxed through June 30, 2002 the two financial ratio covenants that were breached as of September 30, 2002; added a minimum earnings before interest expense, income tax expense, depreciation, and amortization

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

covenant for the fourth quarter of 2002; provided additional security to the lenders in the form of real estate mortgages on certain of the Company's property; and waived the violations of financial ratios for the quarter ended September 30, 2002.

At December 31, 2002, the Company was not in compliance with the consolidated total debt coverage covenant and the fixed charge coverage covenant of the note purchase agreements.

On March 31, 2003, the Company entered into a fifth amendment to the note purchase agreement, which among other things, waived non-compliance with certain financial ratio covenants for the quarter ended December 31, 2002 and March 31, 2003; amended existing financial ratio covenants with which the Company was not in compliance as of December 31, 2002; added an excess cash-flow sweep that requires the funding of a \$23,720,000 collateral account by May 31, 2003 with the amount of the collateral account increasing each month until it reaches \$52,230,000 by December 31, 2003; limits fixed asset expenditures to certain agreed upon limits; and prohibits the Company from making additional loans to its customers for the purchase of equipment or entering into equipment leases with its customers without the consent of the lenders.

The Company intends to enter into a new credit facility in order to refinance the obligations under the senior secured note and the existing credit agreement and is currently in active negotiations with potential lenders regarding such a facility. If the Company repays the senior secured note before September 10, 2011, it will incur additional pre-payments fees.

In the event the Company does not enter into a new credit facility, management believes the Company will remain in compliance with the amended covenants during 2003, however, no assurances can be provided that financial ratio covenant violations under the Note Purchase Agreement will not occur in the future or, if such violations occur, that the note holders will not elect to pursue their contractual remedies under the Note Purchase Agreement, including requiring the immediate repayment in full of all amounts outstanding. There can also be no assurance that the Company can secure adequate or timely replacement refinancing to repay its note holders in the event of an unanticipated repayment demand.

The Company entered into a security agreement dated May 13, 2002 in order to comply with the terms of the credit agreement and the note purchase agreement. The Trigger Date, as defined in the credit agreement and the note purchase agreement, occurred on March 31, 2002, requiring the Company to secure its credit facility and the senior note with its inventory, machinery and equipment, and trade receivables.

Capital expenditures in 2003, budgeted at a maintenance level, are expected to be approximately \$7,288,000. The Company expects to finance these expenditures using the available capacity under the Company's revolving credit facility and internally generated funds. Capital expenditures (excluding those for equipment leased to others) for 2002 were \$19,274,000, compared to \$8,057,000 in 2001. Capital expenditures for 2002 included the purchase of the Loudon, Tennessee facility, machinery and equipment for approximately \$12,800,000.

The Company believes that its current working capital, cash flows generated from future operations and available capacity remaining under its credit facility will be sufficient to meet the Company's working capital and capital expenditure requirements through December 31, 2003.

Market Risk and Risk Management Policies

The Company is exposed to changes in interest rates, primarily from its revolving credit agreements and industrial revenue bonds. Under its current policies, the Company uses interest rate derivative instruments to manage exposure to interest rate changes for a portion of its debt arrangements. Taking into account the effects of interest rate derivatives designated as hedges, a hypothetical 100 basis point adverse move (increase) in interest rates would have adversely affected interest expense by approximately \$436,000 for the year ended December 31, 2002. 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.

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 \$14,749,000 and \$12,137,000 at December 31, 2002 and 2001, respectively. These obligations average three years in duration

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and have minimal risk. Astec Financial Services, Inc. sold both finance and operating leases with limited recourse, generally not exceeding 15% of the purchase price, subject to elimination of recourse responsibilities through remarketing of equipment.

The Company is contingently liable under letters of credit of approximately \$21,300,000 primarily related to Industrial Revenue Bonds.

Environmental Matters

Based on information available, management believes the Company has adequately reserved for potential environmental liabilities and does not believe the potential liability will materially impact the future financial position of the Company.

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.

Allowance for Doubtful Accounts: The Company evaluates its ability to collect accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific reserve for bad debts is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additionally, a general percentage of past due receivables is reserved, based on the Company's past experience of collectibility. If circumstances change (i.e., higher than expected defaults or an unexpected material 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.

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 they are a party to any legal proceedings that will have a material adverse effect on the consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions related to these proceedings.

As discussed in Note 12 of the consolidated financial statements, as of December 31, 2002, the Company has accrued its best estimate of the probable cost for the resolution of these claims. This estimate has been developed in consultation with outside counsel that is handling the defense in these matters and is based upon a combination of litigation and settlement strategies. Certain litigation is being addressed before juries in states where past jury awards have been significant. To the extent additional information arises or strategies change, it is possible that the Company's best estimate of the probable liability in these matters may change.

New Accounting Standards - In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation. SFAS No. 148 prohibits companies from using the prospective method of transition in fiscal years beginning after December 15, 2003. However, the statement permits two transition methods, the modified perspective and retroactive restatement methods, for companies that adopt the fair value method of accounting for stock-based compensation. Although, Statement 148 does not

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

amend Statement 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of Statement 148 are applicable to all companies with stock-based compensation, regardless of whether they account for that compensation using the fair value method of Statement 123 or the intrinsic value method of Opinion 25. We have adopted the new disclosure requirements of SFAS No. 148 for 2002.

In June 2001, the FASB issued SFAS No. 141, *Business Combinations* and No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after that date.

SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite lives. SFAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with definite lives will continue to be amortized over their estimated useful lives.

The Company adopted SFAS 142 effective January 1, 2002 and ceased the amortization of goodwill and intangibles with indefinite lives. Amortization expense of goodwill was \$2,154,000, or \$.07 per diluted share after tax, and \$2,033,000, or \$0.06 per diluted share after tax, in 2001 and 2000, respectively. The Company tested goodwill for impairment using the two-step process prescribed in SFAS 142. The first step in the process is a screen for potential impairment, while the second step measures the amount of impairment, if any. The Company completed the required impairment tests of goodwill during the first quarters of 2002 and 2003 and noted no impairment of goodwill.

CONSOLIDATED BALANCE SHEETS

December 31,

Assets	2002	2001
Current assets:		
Cash and cash equivalents	\$ 30,341,171	\$ 6,670,178
Trade receivables less allowance for doubtful accounts of \$2,775,000 in 2002 and \$2,675,000 in 2001	48,964,719	53,057,092
Finance receivables	17,915,726	13,792,674
Notes and other receivables	9,568,052	1,648,888
Inventories	120,237,521	128,995,577
Prepaid expenses	6,063,303	4,266,036
Refundable income taxes	6,839,098	7,640,150
Deferred tax asset	9,721,492	8,929,188
Other current assets	224,140	260,809
Total current assets	249,875,222	225,260,592
Property and equipment, net	125,799,279	123,394,035
Other assets:		
Goodwill	36,093,277	36,114,983
Finance receivables	1,767,133	14,550,590
Notes receivable	201,968	16,527
Other	2,766,248	1,354,259
Total other assets	40,828,626	52,036,359
Total assets	\$ 416,503,127	\$ 400,690,986
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 3,219,725	\$ 2,368,496
Accounts payable	33,679,806	26,245,927
Customer deposits	6,338,533	8,343,714
Accrued product warranty	3,646,045	3,277,268
Accrued payroll and related liabilities	2,464,217	3,389,987
Other accrued liabilities	27,303,053	19,487,375
Total current liabilities	76,651,379	63,112,767
Long-term debt, less current maturities	130,644,744	127,284,692
Deferred tax liability	9,220,675	9,038,640
Deferred retirement costs	5,632,541	2,197,468
Other	461,361	1,361,160
Total liabilities	222,610,700	202,994,727
Minority interest	460,215	349,611
Commitments and contingencies <small>Notes 7, 8 and 12</small>		
Shareholders' equity:		
Preferred stock - authorized 4,000,000 shares of \$1.00 par value; none issued		
Common stock - authorized 40,000,000 shares of \$.20 par value; issued and outstanding - 19,677,440 in 2002 and 19,603,179 in 2001	3,935,488	3,920,635
Additional paid-in capital	52,547,239	51,681,027
Accumulated other comprehensive income	(2,896,680)	(2,776,131)
Retained earnings	139,846,165	144,521,117
Total shareholders' equity	193,432,212	197,346,648
Total liabilities and shareholders' equity	\$ 416,503,127	\$ 400,690,986

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,

	2002	2001	2000
Net sales	\$ 480,589,793	\$ 455,839,164	\$ 520,687,851
Cost of sales	396,659,249	364,915,606	397,813,019
Gross profit	83,930,544	90,923,558	122,874,832
Selling, general and administrative expenses	72,407,228	71,690,984	69,011,339
Relocation and start-up expenses	3,276,559		
Research and development expenses	7,630,975	7,448,332	6,725,884
Income from operations	615,782	11,784,242	47,137,609
Other income (expense):			
Interest expense	(10,474,350)	(9,367,054)	(8,652,339)
Interest income	1,632,780	1,585,039	2,239,786
Amortization of goodwill and other intangible assets	(141,139)	(2,202,677)	(2,032,724)
Other income - net	1,241,946	2,039,420	4,234,303
Equity in loss of joint venture		(241,922)	(195,781)
Income (loss) before income taxes	(7,124,981)	3,597,048	42,730,854
Income taxes	(2,511,266)	1,480,748	16,441,440
Income (loss) before minority interest	(4,613,715)	2,116,300	26,289,414
Minority interest	92,211	123,878	8,328
Net income (loss)	\$ (4,705,926)	\$ 1,992,422	\$ 26,281,086
Earnings per Common Share			
Net income (loss):			
Basic	\$ (0.24)	\$ 0.10	\$ 1.37
Diluted	(0.24)	0.10	1.33
Weighted average number of common shares outstanding:			
Basic	19,658,032	19,441,818	19,221,754
Diluted	19,658,032	19,753,226	19,721,288

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2002	2001	2000
Cash Flows from Operating Activities			
Net income (loss)	\$(4,705,926)	\$ 1,992,422	\$ 26,281,086
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	15,211,581	17,045,572	15,379,703
Provision for doubtful accounts	1,168,447	1,637,639	807,569
Provision for inventory reserves	3,104,411	990,904	1,437,610
Provision for warranty	8,840,731	3,778,458	1,308,058
Deferred tax provision (benefit)	(610,269)	(1,169,090)	494,685
(Gain) loss on disposition of fixed assets	(162,721)	191,122	(94,261)
Gain on sale of equipment on operating lease	(708,046)	(626,289)	(2,142,119)
Gain on sale of finance receivables	(342,063)	(408,840)	(438,010)
Equity in loss of joint venture		241,922	195,781
Minority interest in losses (earnings) of subsidiary	80,403	(98,578)	(8,328)
(Increase) decrease in:			
Receivables	3,244,069	677,165	8,155,450
Inventories	6,527,167	(4,446,613)	(18,901,256)
Prepaid expenses	(1,378,562)	(879,420)	230,183
Other assets	(1,840,920)	(991,190)	459,650
Increase (decrease) in:			
Accounts payable	6,536,815	(11,046,880)	(3,675,821)
Customer deposits	(1,886,474)	2,191,155	(575,633)
Accrued product warranty	(8,535,986)	(4,855,359)	(1,249,472)
Income taxes payable	597,519	(1,339,156)	(984,131)
Loss reserves of captive insurance company	2,275,444	749,312	
Other accrued liabilities	5,331,169	(2,101,412)	(3,272,367)
Foreign currency transaction (gain) loss	90,651	(80,925)	(120,257)
Net cash provided by operating activities	32,837,440	1,451,919	23,288,120
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment	1,238,570	236,286	319,789
Expenditures for property and equipment	(19,273,932)	(8,057,422)	(21,535,875)
Proceeds from sale of equipment on operating lease	16,634,694	25,141,768	48,920,688
Expenditures for equipment on operating lease	(14,704,868)	(28,001,408)	(53,882,130)
Additions to finance receivables	(40,741,257)	(46,908,713)	(74,134,723)
Collections of finance receivables	20,413,550	26,729,468	32,368,390
Proceeds from sale of finance receivables	29,330,175	18,996,855	38,554,353
Additions to notes receivable	(7,228,110)	(692,760)	(52,000)
Repayments on notes receivable	4,554	460,885	115,773
Cash payments in connection with business combinations, net of cash acquired			(7,468,669)
Net cash used by investing activities	(14,326,624)	(12,095,041)	(36,794,404)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2002	2001	2000
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	\$ 698,540	\$ 748,153	\$ 1,005,502
Net borrowings (repayments) under revolving credit loan	5,314,410	(70,353,821)	16,285,337
Cash paid for retirement of stock	(87,888)		
Principal repayments of industrial bonds, loans and notes payable	(6,769,101)	(4,520,082)	(2,932,513)
Proceeds from debt and notes payable	5,655,642	84,632,406	2,833,145
Net cash provided by financing activities	4,811,603	10,506,656	17,191,471
Effect of exchange rates on cash	348,574	(246,684)	(356,929)
Increase (decrease) in cash and cash equivalents	23,670,993	(383,150)	3,328,258
Cash and cash equivalents, beginning of period	6,670,178	7,053,328	3,725,070
Cash and cash equivalents, end of period	\$ 30,341,171	\$ 6,670,178	\$ 7,053,328
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 10,235,731	\$ 7,823,874	\$ 8,499,094
Income taxes (net of refunds)	\$ (2,955,356)	\$ 4,882,833	\$ 17,934,641
Tax benefits related to stock options:			
Refundable income taxes	\$ 105,809	\$ 1,051,615	\$ 555,962
Additional paid-in capital	(105,809)	(1,051,615)	(555,962)
Non-cash business combination:			
Investment in subsidiary		\$ 144,600	\$ 1,576,844
Accrued liability		1,352,751	(1,576,844)
Common stock		(26,735)	
Additional paid-in capital		(1,470,616)	

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2002, 2001 and 2000

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance						
December 31, 1999	19,121,137	\$ 3,824,227	\$ 46,918,852	\$116,247,609	\$ 266,888	\$167,257,576
Net income				26,281,086		26,281,086
Other comprehensive income:						
Foreign currency translation adjustment					(477,186)	(477,186)
Comprehensive income						25,803,900
Exercise of stock options, including tax benefit	198,609	39,722	1,521,742			1,561,464
Balance						
December 31, 2000	19,319,746	3,863,949	48,440,594	142,528,695	(210,298)	194,622,940
Net income				1,992,422		1,992,422
Other comprehensive income:						
Foreign currency translation adjustments					(2,126,103)	(2,126,103)
Unrealized loss on cash flow hedge, net of income taxes of \$269,549					(439,730)	(439,730)
Comprehensive income						(573,411)
Exercise of stock options, including tax benefit	149,758	29,951	1,769,817			1,799,768
Stock issued in business combination	133,675	26,735	1,470,616			1,497,351
Balance						
December 31, 2001	19,603,179	3,920,635	51,681,027	144,521,117	(2,776,131)	197,346,648
Net income (loss)				(4,705,926)		(4,705,926)
Other comprehensive income (loss):						
Minimum pension liability adjustment, net of income taxes of \$809,570					(1,320,879)	(1,320,879)
Foreign currency translation adjustments					1,361,961	1,361,961
Unrealized loss on cash flow hedge, net of income taxes of \$99,064					(161,631)	(161,631)
Comprehensive loss						(4,826,475)
Exercise of stock options, including tax benefit	74,261	14,853	866,212			881,065
Change in minority interest ownership				30,974		30,974
Balance						
December 31, 2002	19,677,440	\$3,935,488	\$52,547,239	\$139,846,165	\$(2,896,680)	\$193,432,212

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2002, 2001 and 2000

1. Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of Astec Industries, Inc. and its subsidiaries. The Company's wholly-owned and consolidated subsidiaries at December 31, 2002 are as follows:

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

All significant intercompany transactions have been eliminated in consolidation.

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ber of sales accounted for as multiple-element arrangements, whereby related revenue on each product is recognized when it is shipped, and the related service revenue is recognized when the service is performed.

Advertising Expense - The cost of advertising, other than direct response advertising, is expensed as incurred. The Company incurred approximately \$2,700,000, \$4,447,000 and \$3,478,000 in advertising costs during 2002, 2001 and 2000, respectively.

Direct response advertising is capitalized and amortized over its expected period of future benefits. The Company participates in a weeklong industry trade show that takes place once every three years. The Company maintains customer and potential customer attendance records that are used to track the future sales revenues as a result of their advertising and customer relation efforts at the show. The costs related to the trade exhibits and show attendance are capitalized, then amortized over the period in which revenue related to the trade show is generated, which is twenty-four months. Sixty percent of costs are expensed during the first twelve months following the show and the remaining forty percent is expensed over the succeeding twelve-month period based on historical revenue patterns. The amortization method is supported by the attendance and revenue related records maintained by the Company. Prepaid trade show expenses totaled \$1,472,000 and \$0 as of December 31, 2002 and 2001. Amortized advertising expenses related to presentation and attendance at trade shows were \$963,000, \$257,000 and \$899,000 for the years ended December 31, 2002, 2001 and 2000.

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 2002, 2001 and 2000 were at or above the fair value of the shares, no stock-based employee compensation cost is reflected in net income (loss) for those years.

During 2002, the Financial Accounting Standards Board issued SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends SFAS 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects on the reporting of net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about these effects in interim financial information. The annual disclosure requirements of SFAS 148 are effective for fiscal years ending after December 15, 2002. Although Statement 148 does not amend Statement 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of Statement 148 are applicable to all companies with stock-based compensation, regardless of whether they account for that compensation using the fair value method of Statement 123 or the intrinsic value method of APB 25.

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 123. The pro forma impact on net income (loss) shown below may not be representative of future effects.

Year Ended December 31,

	2002	2001	2000
Net income (loss), as reported	\$ (4,705,926)	\$ 1,992,422	\$26,281,086
Stock compensation expense under SFAS 123, net of taxes	(1,886,735)	(2,611,266)	(3,124,400)
Adjusted net income (loss)	\$ (6,592,661)	\$ (618,844)	\$23,156,686
Basic earnings (loss) per share, as reported	\$ (0.24)	\$ 0.10	\$ 1.37
Stock compensation expense under SFAS 123, net of taxes	(0.10)	(0.13)	(0.17)
Adjusted basic earnings (loss) per share	\$ (0.34)	\$ (0.03)	\$ 1.20
Diluted earnings (loss) per share, as reported	\$ (0.24)	\$ 0.10	\$ 1.33
Stock compensation expense under SFAS 123, net of taxes	(0.10)	(0.13)	(0.16)
Adjusted diluted earnings (loss) per share	\$ (0.34)	\$ (0.03)	\$ 1.17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2002 Grants	2001 Grants	2000 Grants
Expected life	4 years	4 years	4 years
Expected volatility	0.462	0.460	0.444
Risk-free interest rate	2.03%	3.93%	5.25%
Dividend yield	--	--	--

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

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

Year Ended December 31,

	2002	2001	2000
Numerator:			
Net income (loss)	\$ (4,705,926)	\$ 1,992,422	\$ 26,281,086
Denominator:			
Denominator for basic earnings per share	19,658,032	19,441,818	19,221,754
Effect of dilutive securities:			
Employee stock options	0	311,408	499,534
Denominator for diluted earnings per share	19,658,032	19,753,226	19,721,288
Earnings per common share:			
Basic	\$ (0.24)	\$ 0.10	\$ 1.37
Diluted	\$ (0.24)	\$ 0.10	\$ 1.33

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 133 requires the Company to recognize all derivatives in the balance sheet at fair value. Derivatives that are not hedged must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through income or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized in income. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 had no material impact on the Company's income or financial position.

Shipping and Handling Fees and Cost - The Company records revenues earned for shipping and handling as net sales, while the cost of shipping and handling is classified as cost of goods sold. Revenues and expenses were \$10,793,000 and \$11,984,000 for 2002, \$10,482,000 and \$12,119,000 for 2001 and \$11,857,000 and \$12,719,000 for 2000, respectively.

Reclassifications - Certain amounts for 2001 and 2000 have been reclassified to conform with the 2002 presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Business Combinations

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

On July 1, 2002 the Company announced it had entered into a strategic alliance with Case Construction Equipment for the manufacture, marketing and sale of trenchers, horizontal directional drills ("HDD") and related equipment for the utility constructions market. Under an original equipment manufacturer agreement ("OEM"), the Company's Underground Group will produce the current line of of eight Case trenchers, three HDD's, HDD fluid-mixing systems and downhole tools, and will also dedicate selected models of Trencor trenchers and American Augers HDD's to be distributed through the Case dealer networks. As part of the agreement, the Company will also have access to Case's worldwide dealer networks and access to Case's purchasing power for these product lines through its supply base. As part of the agreement, the Company acquired certain intellectual property, tooling and other product-specific manufacturing assets from Case. The Company's subsidiary Trencor, Inc. will manufacture and sell Case trencher products beginning in early 2003, with the full Case product line integration and related manufacturing operations scheduled for completion by the end of 2003.

On October 2, 2000, the Company acquired the operating assets and liabilities of Carlson Paving Products Company, Inc. ("Carlson") for \$4,170,000 in cash and 144,162 shares of the Company's stock valued at approximately \$1,577,000. On September 30, 2000, the Company purchased substantially all of the assets and liabilities of Osborn MMD, a Boart Longyear group operation, from Anglo Operations Limited for approximately \$3,200,000 in cash. The acquired business is located in South Africa and operates as Osborn Engineered Products SA (Pty) Ltd.

A summary of the net assets acquired is as follows:

	Case Product Line	Osborn	Carlson
Current assets	\$725,393	\$7,634,984	\$2,229,110
Property, plant and equipment	350,000	1,843,815	715,884
Other assets		48,809	19,005
Current liabilities		(4,667,809)	(640,400)
Other liabilities			(964,365)
Goodwill and other intangibles	2,000,000	(1,194,292)	4,385,025
Less: Minority interest		(439,861)	
Net assets acquired excluding cash	3,075,393	3,225,646	5,744,259
Cash			2,585
Net assets acquired	\$3,075,393	\$3,225,646	\$5,746,844

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

3. Inventories

Inventories consisted of the following:

	December 31,	
	2002	2001
Raw materials and parts	\$ 47,937,679	\$ 42,745,772
Work-in-process	20,606,056	27,270,361
Finished goods	27,765,774	37,645,041
Used equipment	23,928,012	21,334,403
Total	\$120,237,521	\$128,995,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets acquired in business combinations. The Company adopted SFAS No. 142 in January 2002. SFAS 142 provides that goodwill and certain other intangible assets no longer will be amortized for fiscal years beginning after December 15, 2001 but will be tested for impairment at least annually. The Company measures goodwill impairment by comparing the carrying value of its operating units, including goodwill, with the fair value of the operating unit measured by determining the present value of future cash flows. Significant declines in estimated future cash flows could indicate potential impairment and trigger an impairment assessment. At December 31, 2002, the Company had unamortized goodwill in the amount of \$36,093,277. Amortization expense related to goodwill was \$2,154,000 and \$2,033,000 for the years ended December 31, 2001 and 2000, respectively.

The following table presents the Company's net income assuming goodwill had not been amortized during the twelve months ended December 31, 2001 and December 31, 2000.

Year ended December 31,

	2002	2001	2000
Net income (loss), as reported	\$ (4,705,926)	\$ 1,992,442	\$ 26,281,086
Add goodwill amortization, net of taxes		1,335,000	1,260,000
Adjusted net income (loss)	\$ (4,705,926)	\$ 3,327,442	\$ 27,541,086
Basic earnings (loss) per share, as reported	\$ (0.24)	\$ 0.10	\$ 1.37
Add goodwill amortization, net of taxes		0.07	0.07
Adjusted basic earnings (loss) per share	\$ (0.24)	\$ 0.17	\$ 1.44
Diluted earnings (loss) per share, as reported	\$ (0.24)	\$ 0.10	\$ 1.33
Add goodwill amortization, net of taxes		0.07	0.06
Adjusted diluted earnings (loss) per share	\$ (0.24)	\$ 0.17	\$ 1.39

The changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2002 and December 31, 2001 are as follows:

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	Total
Balance December 31, 2000	\$ 1,459,446	\$ 18,812,916	\$ 4,419,341	\$ 12,516,221	\$ 37,207,924
Amortization	(101,280)	(1,096,032)	(224,359)	(731,867)	(2,153,538)
Goodwill acquired during the year	728,138				728,138
Purchase price adjustments		582,293	(199,959)	(49,875)	332,459
Balance December 31, 2001	\$ 2,086,304	\$ 18,299,177	\$ 3,995,023	\$ 11,734,479	\$ 36,114,983
Purchase price adjustments		16,926	(38,632)		(21,706)
Balance December 31, 2002	\$ 2,086,304	\$ 18,316,103	\$ 3,956,391	\$ 11,734,479	\$ 36,093,277

5. Other Intangible Assets

Amortization expense for other intangible assets was \$110,236, \$0 and \$0, for 2002, 2001 and 2000, respectively. Other intangible assets consisted of the following at December 31, 2002:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Avg. Amortization Period
Dealer network and customer base	\$ 820,000	\$ (45,197)	\$ 774,803	10 years
Drawings	820,000	(45,197)	774,803	10 years
Trademarks	336,000	(18,520)	317,480	3 years
Patents	24,000	(1,322)	22,678	2 years
Total	\$2,000,000	\$ (110,236)	\$1,889,776	9 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment consisted of the following:

December 31,

	2002	2001
Land, land improvements and buildings	\$ 86,636,858	\$ 74,499,184
Equipment	111,476,360	106,544,080
Less accumulated depreciation	(78,864,180)	(67,562,056)
Land, buildings and equipment - net	119,249,038	113,481,208
Rental property:		
Equipment	8,477,034	12,163,290
Less accumulated depreciation	(1,926,793)	(2,250,463)
Rental equipment - net	6,550,241	9,912,827
Total	\$125,799,279	\$123,394,035

Depreciation expense was approximately \$15,070,000, \$14,807,000 and \$13,347,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

7. Leases

The Company leases certain land, buildings and equipment for use in its operations. Total rental expense charged to operations under operating leases was approximately \$3,738,000, \$4,072,000 and \$4,054,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Minimum rental commitments for all noncancelable operating leases at December 31, 2002 are as follows:

2003	\$2,132,171
2004	2,102,259
2005	942,733
2006	349,199
2007	261,910
Thereafter	277,723

The Company also leases equipment to customers under contracts generally ranging from 36 to 48 months. Rental income under such leases was \$2,859,000, \$2,846,000 and \$3,908,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Minimum rental payments to be received for equipment leased to others at December 31, 2002 are as follows:

2003	\$ 1,585,504	2006	\$ 1,457,577
2004	1,576,538	2007	1,265,570
2005	1,691,049	Thereafter	505,609

8. Long-term Debt

Long-term debt consisted of the following:

December 31,

	2002	2001
Revolving credit loan of \$58,200,000 at December 31, 2002, at interest rates from 4.7% to 6.5% at December 31, 2002	\$ 31,902,204	\$ 28,012,794
\$80,000,000 Senior Secured Note due September 10, 2011, at 8.935%, payable in annual installments of \$11,428,571 beginning September 10, 2005	80,000,000	80,000,000
Industrial Development Revenue Bonds payable in annual installments of \$500,000 through 2006 at weekly negotiated interest rates	2,000,000	2,500,000
Industrial Development Revenue Bonds due in 2019 at weekly negotiated interest rates	8,000,000	8,000,000
Industrial Development Revenue Bonds due in 2028 at weekly negotiated interest rates	9,200,000	9,200,000
Other current notes payable	2,762,265	1,940,394
Total long-term debt	133,864,469	129,653,188
Less current maturities	3,219,725	2,368,496
Long-term debt less current maturities	\$ 130,644,744	\$ 127,284,692

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On September 10, 2001, the Company and Astec Financial Services entered into a \$125,000,000 revolving credit facility with a syndicate of banks that expires on September 10, 2004 and an \$80,000,000 note purchase agreement for senior secured notes, placed with private institutions. The Company did not meet certain financial covenants under the revolving credit facility and note agreement for each of the first three quarters during 2002. The Company obtained waivers and amendments for each of these violations which ultimately resulted in the Company granting a security interest in its inventory, machinery and equipment, and trade receivables to the banks and note holders, and reducing the maximum commitment available under the credit facility to \$58,200,000. Approximately \$21,300,000 of the revolving credit facility at December 31, 2002 was supporting outstanding letters of credit, primarily for industrial development revenue bonds. Advances to Astec Financial under the credit facility are limited to eligible receivables as defined in the agreement.

Amounts outstanding under the credit facility bear interest, at the Company's option, at a rate from prime to prime plus .875% or from 1.0% to 1.875% above the London Interbank Offering Rate. The interest rate applied to borrowings is based on a leverage ratio, calculated quarterly, as defined by the credit agreement. As a result of covenant violations during 2002, the Company paid interest rate surcharges from .375% to 1.375% above the rates in the credit agreement and senior secured note agreement. Both the credit agreement and the senior secured note agreement contain certain restrictive covenants relative to operating ratios and capital expenditures and also restrict the payment of dividends.

The Company was not in compliance with certain covenants of the revolving credit facility and the senior note agreement as of December 31, 2002 and March 31, 2003. On March 31, 2003 the Company entered into an amendment to the credit facility and note purchase agreement, which waived the violations of the financial covenants as of December 31, 2002 and March 31, 2003. The amendment increased the maximum commitment available under the amended credit facility to \$60,700,000; amended the financial ratio covenants prospectively; added additional operating ratio covenants; requires the funding of a collateral account; restricts the aggregate amount of recourse obligations; prohibits the Company from making additional loans to its customers for the purchase of equipment or entering into equipment leases with its customers; and, if the credit agreement and notes are not paid in full by April 15, 2003, grants additional security interests in all of the Company's real and intellectual property and any other asset of the Company with a book value greater than \$500,000. Under the terms of the note purchase agreement, if the Company repays the senior note before September 10, 2011, it will incur pre-payment fees. Management believes the Company will remain in compliance with the amended covenants under the credit facility and the senior secured notes throughout 2003.

The aggregate of all maturities of long-term debt in each of the next five years is as follows:

2003	\$ 3,219,725	2006	\$11,224,921
2004	32,412,839	2007	10,724,921
2005	11,224,921	Thereafter	65,057,142

For 2002, the weighted average interest rate on short-term borrowings, which includes current maturities of Industrial Revenue Bonds, was 3.84%.

9. Product Warranty Reserves

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

	2002	2001
Reserve balance at beginning of period	\$ 3,277,268	\$ 4,441,845
Warranty liabilities accrued during the period	8,840,731	3,778,458
Warranty liabilities settled during the period	(8,471,954)	(4,943,035)
Reserve balance at end of period	\$ 3,646,045	\$ 3,277,268

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Retirement Benefits

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

The accrued benefit for 2002 and 2001 for the Company's three post-retirement OPEB benefit plans were \$980,866 and \$828,002 for the Telsmith Retiree Medical and Life Insurance Plan; \$475,991 and \$485,814 for the Kolberg-Pioneer, Inc. Retiree Life Insurance Plan and Post-Retirement Medical Plan; and \$75,120 and \$66,575 for the Barber-Greene Retirement Life Insurance Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 8,176,169	\$ 7,209,303	\$ 1,916,424	\$ 1,655,500
Service cost	387,527	393,391	110,803	117,596
Interest cost	583,709	528,474	106,341	122,610
Actuarial (gain) loss	723,519	358,657	(308,789)	105,865
Benefits paid	(311,120)	(313,656)	(80,519)	(85,147)
Benefit obligation at end of year	9,559,804	8,176,169	1,744,260	1,916,424
Change in plan assets				
Fair value of plan assets at beginning of year	5,337,936	6,372,805		
Actual return on plan assets	(1,273,391)	(721,213)		
Employer contribution	74,962			
Benefits paid	(311,120)	(313,656)		
Fair value of plan assets at end of year	3,828,387	5,337,936		
Funded status (underfunded)	(5,731,417)	(2,838,233)	(1,744,260)	(1,916,424)
Unrecognized net actuarial loss	3,761,302	2,021,156	212,283	536,033
Accrued benefit cost	(1,970,115)	(817,077)	(1,531,977)	(1,380,391)
Accounts recognized in the consolidated balance sheets				
Accrued benefit cost	(1,970,115)	(817,077)	(1,531,977)	(1,380,391)
Additional minimum liability	(2,130,449)			
Accrued benefit liability	(4,100,564)	(817,077)	(1,531,977)	(1,380,391)
Accumulated other comprehensive loss	2,130,449			
Net amount recognized	\$ (1,970,115)	\$ (817,077)	\$ (1,531,977)	\$ (1,380,391)
Weighted-average assumptions as of December 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	4.50%	4.00%		

The weighted average annual assumed rate of increase in per capita health care costs is 10.0% for 2003 and is assumed to decrease gradually to 5.75% for 2012 and remain at that level thereafter. A 1.0% increase or decrease in the medical inflation rate would not have a significant effect on either the benefit obligation or the aggregate service and interest cost components of net periodic benefit cost.

Net periodic benefit cost for 2002, 2001 and 2000 included the following components:

	Pension Benefits			Other Benefits		
	2002	2001	2000	2002	2001	2000
Components of net periodic benefit cost						
Service cost	\$ 387,527	\$ 393,391	\$ 351,320	\$ 110,803	\$ 117,596	\$ 86,027
Interest cost	583,709	528,474	504,384	106,341	122,610	103,596
Expected return on plan assets	(467,132)	(558,237)	(614,194)			
Amortization of transition obligation				29,707	30,555	33,700
Recognized net actuarial (gain) loss	86,264			(14,746)		(12,164)
Net periodic benefit cost	\$ 590,368	\$ 363,628	\$ 241,510	\$ 232,105	\$ 270,761	\$ 211,159

The Company sponsors a defined contribution plan to provide eligible employees with additional income upon retirement. The Company's contributions to the plan are based on employee contributions. The Company's contributions totaled \$2,276,000 in 2002, \$2,303,000 in 2001 and \$2,411,000 in 2000.

11. Income Taxes

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

	Year Ended December 31,		
	2002	2001	2000
United States	\$ (9,185,974)	\$ 1,933,324	\$ 41,692,857
Foreign	2,060,993	1,663,724	1,037,997
Income (loss) before income taxes	\$ (7,124,981)	\$ 3,597,048	\$ 42,730,854

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Year Ended December 31,			
	2002	2001	2000
Current provision (benefit)	\$ (3,551,979)	\$ 381,396	\$ 15,803,033
Deferred provision	1,040,713	1,099,352	638,407
Total provision (benefit) for income taxes	\$ (2,511,266)	\$ 1,480,748	\$ 16,441,440

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

Year Ended December 31,			
	2002	2001	2000
Tax at statutory rates	\$ (2,493,743)	\$ 1,258,967	\$ 14,934,626
Benefit from foreign sales	(265,878)	(474,315)	(516,982)
State taxes, net of federal income tax	(208,445)	1,586	1,389,290
Permanent differences	456,800	859,329	844,758
Other items		(164,819)	(210,252)
Income tax provision (benefit)	\$ (2,511,266)	\$ 1,480,748	\$ 16,441,440

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.

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

Year Ended December 31,		
	2002	2001
Deferred tax assets:		
Inventory reserves	\$ 2,986,350	\$ 2,762,332
Warranty reserves	1,066,751	979,683
Bad debt reserves	940,538	911,759
Other accrued expenses	7,928,366	5,577,996
Total deferred tax assets	12,922,005	10,231,770
Deferred tax liabilities:		
Property and equipment	11,036,376	9,823,277
Other	1,384,812	517,945
Total deferred tax liabilities	12,421,188	10,341,222
Net deferred tax asset (liability)	\$ 500,817	\$ (109,452)

12. Contingencies

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

Certain customers have financed purchases of the Company's products through arrangements in which the Company is contingently liable for customer debt and residual value guarantees aggregating \$14,749,000 and \$12,137,000 at December 31, 2002 and 2001, respectively. These obligations average three years in duration and have minimal risk. Astec Financial Services, Inc. sold both finance and operating leases with limited recourse, generally not exceeding 15% of the purchase price, subject to elimination of recourse responsibilities through remarketing of equipment.

13. Shareholders' Equity

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

Under terms of the Company's stock option plans, officers and certain other employees may be granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option is granted. The Company has reserved shares of common stock for exercise of outstanding non-qualified options and incentive options of officers and employees of the Company and its subsidiaries at prices

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

determined by the Board of Directors. In addition, a Non-employee Directors Stock Incentive Plan has been established to allow non-employee directors to have a personal financial stake in the Company through an ownership interest. Directors may elect to receive their compensation in common stock, deferred stock or stock options. Options granted under the Non-employee Directors Stock Incentive Plan and the Executive Officer Annual Bonus Equity Election Plan vest and become fully exercisable immediately. All 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 - 299,948, (2) 1998 Long-term Incentive Plan - 2,819,193, (3) Executive Officer Annual Bonus Equity Election Plan - 16,892 and (4) 1998 Non-employee Directors Stock Plan - 10,209.

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

A summary of the Company's stock option activity and related information for the years ended December 31, 2002, 2001 and 2000 follows:

Year Ended December 31,

	2002		2001		2000	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Options outstanding, beginning of year	2,622,169	\$19.61	2,173,034	\$ 20.53	1,866,730	\$ 17.23
Options granted	614,431	\$14.45	603,593	\$ 12.92	580,348	\$ 25.58
Options forfeited	37,618	\$27.91	7,850	\$ 22.44	78,800	\$ 18.59
Options exercised	52,740	\$ 9.88	146,608	\$ 5.03	195,244	\$ 5.12
Options outstanding, end of year	3,146,242	\$18.54	2,622,169	\$ 19.61	2,173,034	\$ 20.53

The weighted average fair value of options granted whose exercise price was equal to the market price of the stock on the grant date was \$4.96, \$5.25 and \$10.61 for the years ended December 31, 2002, 2001 and 2000, respectively. The weighted average fair value of options granted whose exercise price exceeded the market price of the stock on the grant date was \$7.67, \$7.72 and \$14.92 for the years ended December 31, 2002, 2001 and 2000, respectively.

The following table summarizes information about the stock options outstanding under the Company's option plans as of December 31, 2002:

Options Outstanding			Options Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$4.56 - \$6.44	261,948	3 years	\$ 5.17	261,948	\$ 5.17
\$7.44 - \$14.27	593,648	7 years	\$ 12.57	588,648	\$ 12.60
\$14.50 - \$36.00	2,290,646	7 years	\$ 21.62	1,688,645	\$ 24.16
Total	3,146,242	6 years	\$ 18.54	2,539,241	\$ 19.52

The Company has adopted a Shareholder Protection Rights Agreement and declared a distribution of one right (the "Right") for each outstanding share of Company common stock, par value \$0.20 per share (the "Common Stock"). Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Unit") of Series A Participating Preferred Stock, par value \$1.00 per share (the "Preferred Stock"), at a purchase price of \$18.00 per Unit, subject to adjustment. The Rights currently attach to the certificates representing shares of outstanding Company Common Stock, and no separate Rights certificates will be distributed. The Rights will separate from the Common Stock upon the earlier of ten business days (unless otherwise delayed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

by the Board) following the (i) 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 15% or more of the then outstanding shares of Common Stock, or (ii) commencement of a tender offer or exchange offer that would result in an Acquiring Person beneficially owning 15% or more of the then outstanding shares of Common Stock. The Board of Directors may terminate the Rights without any payment to the holders thereof at any time prior to the close of business ten business days following announcement by the Company that a person has become an Acquiring Person. The Rights, which do not have voting power and are not entitled to dividends, expire on December 21, 2005. In the event of a merger, consolidation, statutory share exchange or other transaction in which shares of Common Stock are exchanged, each Unit of Preferred Stock will be entitled to receive the per share amount paid in respect of each share of Common Stock.

14. Financial Instruments

Credit Risk - The Company sells products to a wide variety of customers. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. 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, 2002, concentrations of credit risk with respect to receivables are limited due to the wide variety of customers.

Fair Value of Financial Instruments - The book value of the Company's financial instruments approximates their fair value. Financial instruments include cash, accounts receivable, finance receivables, accounts payable, long- and short-term debt and one interest rate swap agreement. Excluding the \$80,000,000 senior secured note, the Company's short and long-term debt is floating rate debt and, accordingly, book value approximates its fair value. The fair value of amounts outstanding under the senior secured note agreement are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and were \$78,822,000 at December 31, 2002.

Derivative Financial Instruments - The Company only uses derivatives for hedging purposes. The Company enters into interest-rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed rate, thus reducing the impact of interest rate changes on future income. On April 6, 2000, the Company's captive finance subsidiary, Astec Financial Services, Inc., entered into a swap agreement with a notional amount of \$7,500,000, with a fixed interest rate of 7.08 percent, that is effective for five years. At December 31, 2002 the fair value of the \$7,500,000 interest rate swap was \$(947,494). The fair value of the swap agreement is based upon quoted market prices.

15. Operations by Industry Segment and Geographic Area

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

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

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

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

Underground Group - This segment consists of two operating units that design, manufacture and market auger boring machines, directional drills, fluid/mud systems, chain and wheel trenching equipment, rock saws, road miners and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

material processing equipment. 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 finance subsidiary.

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

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

Segment information for 2002

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

Segment information for 2001

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

Segment information for 2000

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$187,823,335	\$190,931,429	\$ 63,268,136	\$ 75,748,060	\$ 2,916,891	\$520,687,851
Intersegment revenues	13,427,266	21,024,808	120,618	504,963	3,051,983	38,129,638
Interest expense	4,742	769,003	175,634	340,583	7,362,377	8,652,339
Depreciation and amortization	4,774,154	5,078,301	1,629,792	2,082,141	1,815,315	15,379,703
Segment profit (loss)	17,996,985	18,367,234	8,343,809	6,835,885	(25,515,926)	26,027,987
Segment assets	167,042,229	202,701,018	58,826,228	59,934,607	262,897,237	751,401,319
Capital expenditures	8,562,340	6,819,029	1,602,651	3,336,470	470,534	20,791,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Year Ended December 31,

	2002	2001	2000
Sales:			
Total external sales for reportable segments	\$ 476,672,121	\$ 452,685,220	\$ 517,770,960
Intersegment sales for reportable segments	50,096,043	33,894,934	35,077,655
Other sales	7,306,062	6,328,360	5,968,874
Elimination of intersegment sales	(53,484,433)	(37,069,350)	(38,129,638)
Total consolidated sales	\$ 480,589,793	\$ 455,839,164	\$ 520,687,851
Profit:			
Total profit for reportable segments	\$ 6,726,467	\$ 16,665,212	\$ 51,543,913
Other (loss)	(11,645,534)	(14,080,215)	(25,515,926)
Equity in (loss) income of joint venture		(241,922)	(195,781)
Minority interest in earnings of subsidiary	(92,211)	(123,878)	(8,328)
Elimination of intersegment profit	305,352	(226,775)	457,208
Total consolidated net income	\$ (4,705,926)	\$ 1,992,422	\$ 26,281,086
Assets:			
Total assets for reportable segments	\$ 510,435,111	\$ 482,860,165	\$ 488,504,082
Other assets	266,039,667	245,183,271	262,897,237
Elimination of intercompany profit in inventory and leased equipment	(732,129)	(53,481)	(246,280)
Elimination of intercompany receivables	(182,276,729)	(149,056,131)	(144,200,101)
Elimination of investment in subsidiaries	(143,227,984)	(143,943,282)	(141,254,918)
Other eliminations	(33,734,809)	(34,299,556)	(66,904,753)
Total consolidated assets	\$ 416,503,127	\$ 400,690,986	\$ 398,795,267
Interest expense:			
Total interest expense for reportable segments	\$ 1,096,056	\$ 1,033,277	\$ 1,289,962
Other interest expense	9,378,294	8,333,777	7,362,377
Total consolidated interest expense	\$ 10,474,350	\$ 9,367,054	\$ 8,652,339
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	\$ 12,527,195	\$ 14,882,389	\$ 13,564,388
Other depreciation and amortization	2,684,386	2,163,183	1,815,315
Total consolidated depreciation and amortization	\$ 15,211,581	\$ 17,045,572	\$ 15,379,703
Capital expenditures:			
Total capital expenditures for reportable segments	\$ 18,676,726	\$ 7,689,626	\$ 20,320,490
Other capital expenditures	597,206	367,796	470,534
Total consolidated capital expenditures (excluding those for equipment leased to others)	\$ 19,273,932	\$ 8,057,422	\$ 20,791,024

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

International sales by major geographic region were as follows:

Year Ended December 31,			
	2002	2001	2000
Asia	\$ 1,823,596	\$ 2,020,836	\$ 1,589,937
Southeast Asia	11,377,856	6,462,062	2,824,572
Europe	6,121,596	12,951,596	7,137,599
South America	4,299,233	6,536,419	2,984,187
Canada	14,603,301	13,356,316	14,950,621
Australia	3,836,008	1,642,519	6,598,660
Africa	20,549,157	23,855,351	8,044,463
Central America	9,862,927	20,602,844	15,557,104
Middle East	274,445	666,312	205,300
West Indies	3,669,768	2,398,950	3,018,152
Other	2,888,426	917,346	588,325
Total	\$79,306,313	\$91,410,551	\$63,498,920

16. Finance Receivables

Finance receivables are receivables of Astec Financial Services, Inc. Contractual maturities of outstanding receivables at December 31, 2002 were:

Amounts Due In	Financing Leases	Notes	Total
2003	\$ 1,866,196	\$ 16,049,530	\$ 17,915,726
2004	204,000	432,360	636,360
2005	204,000	108,498	312,498
2006	204,000	221,016	425,016
2007	393,259		393,259
Thereafter			
Total	\$ 2,871,455	\$ 16,811,404	\$ 19,682,859

Receivables may be paid prior to contractual maturity generally by payment of a prepayment penalty. At December 31, 2002, there were no impaired loans or leases. Recognition of income on finance receivables is suspended when management determines that collection of future income is not probable. Accrual is resumed if the receivable becomes contractually current and collection doubts are removed. Previously suspended income is recognized at that time.

17. Other Comprehensive Income

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

Year Ending December 31,			
	2002	2001	2000
Foreign currency translation adjustment	\$ (974,440)	\$ (2,336,401)	\$ (210,298)
Unrealized loss on cash flow hedge, net of tax	(601,361)	(439,730)	
Minimum pension liability adjustment, net of tax	(1,320,879)		
Accumulated other comprehensive loss	\$ (2,896,680)	\$ (2,776,131)	\$ (210,298)

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Astec Industries, Inc.

We have audited the accompanying consolidated balance sheets of Astec Industries, Inc. and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astec Industries, Inc. and subsidiaries at December 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

Chattanooga, Tennessee
March 7, 2003,
except for Note 8, as to which the date is
March 31, 2003



BOARD OF DIRECTORS

J. DON BROCK, Ph.D

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

Member of Executive Committee
and Technical Committee

RONALD W. DUNMIRE

Former President, Cedarapids, Inc.

Member of Audit Committee,
Compensation Committee and Technical Committee

DANIEL K. FRIERSON

Chairman & CEO, Dixie Group, Inc.

Member of Executive Committee
and Nominating Committee

ALBERT E. GUTH

Vice President, Administration
and Secretary

Member of Executive Committee

WILLIAM D. GEHL

Chairman & CEO, Gehl Company

Member of Audit Committee and
Compensation Committee

RONALD F. GREEN

President, Green and Associates, LLC

Member of Audit Committee

WILLIAM B. SANSOM

Chairman & CEO
The H.T. Hackney Company

Member of Audit Committee and
Nominating Committee

W. NORMAN SMITH

President, Astec Inc.
Group Vice President, Asphalt

Member of Executive Committee
and Technical Committee

ROBERT G. STAFFORD

Group Vice President, Aggregate & Mining

Member of Technical Committee

ROBERT H. WEST

Former Chairman and President of Butler
Manufacturing Company

Member of Compensation Committee
Nominating Committee

EXECUTIVE OFFICERS

J. DON BROCK, Ph.D

Chairman of the Board
President & CEO

ALBERT E. GUTH

Vice President, Administration
and Secretary

F. McKAMY HALL

Vice President, Chief Financial Officer
& Treasurer

THOMAS R. CAMBELL

Group Vice President,
Mobile Asphalt Paving & Underground

W. NORMAN SMITH

Group Vice President, Asphalt

ROBERT G. STAFFORD

Group Vice President,
Aggregate & Mining



CORPORATE INFORMATION

CORPORATE EXECUTIVE OFFICERS

J. Don Brock, Ph. D., *Chairman of the Board, President and CEO*
Albert E. Guth, *Vice President, Administration and Secretary*
F. McKamy Hall, *Vice President, Chief Financial Officer and Treasurer*
Thomas R. Cambell, *Group Vice President - Mobile Asphalt Paving & Underground and President, Roadtec, Inc., Carlson Paving Products, Inc., American Augers, Inc., and Trenchor, Inc.*
W. Norman Smith, *Group Vice President - Asphalt and President, Astec, Inc.*
Robert G. Stafford, *Group Vice President - Aggregate & Mining*

SUBSIDIARY EXECUTIVE OFFICERS

Frank D. Cargould, *President, Breaker Technology Ltd. and Breaker Technology, Inc.*
David L. Winters, *General Manager, Carlson Paving Products, Inc.*
Mike A. Bremmer, *General Manager, CEI Enterprises, Inc.*
James G. May, *President, Heatec, Inc. and CEI Enterprises, Inc.*
Jeffrey J. Elliott, *President, Johnson Crushers International, Inc.*
Joseph P. Vig, *President, Kolberg-Pioneer, Inc.*
Alan Forsyth, *Managing Director, Osborn Engineered Products SA (Pty) Ltd.*
Timothy D. Gonigam, *President, Production Engineered Products, Inc.*
Jeffrey L. Richmond, *General Manager, Roadtec, Inc.*
Neil E. Schmidgall, *President, Superior Industries of Morris, Inc.*
Richard A. Patek, *President, Telsmith, Inc.*

OTHER INFORMATION

Transfer Agent	<i>Mellon Investor Services LLC. Overpeck Centre, 85 Challenger Road Ridgefield Park, NJ 07660 (800) 851.9677, www.mellon-investor.com</i>
Stock Exchange	<i>Nasdaq, National Market - ASTE</i>
Auditors	<i>Ernst & Young LLP, Chattanooga, TN</i>
General Counsel & Litigation	<i>Chambliss, Bahner & Stophel P.C., Chattanooga, TN</i>
Securities Counsel	<i>Alston & Bird, LLP, Atlanta, GA</i>
Corporate Office	<i>Astec Industries, Inc., 1725 Shepherd Rd. Chattanooga, TN 37421 Phone (423) 899.5898 Fax (423) 899.4456, www.astecindustries.com</i>

The Form 10-K, as filed with the Securities and Exchange Commission, may be obtained at no cost by any shareholder upon written request to Astec Industries, Inc., attention Investor Relations.

The Annual meeting will be held at 10 a.m. on May 15, 2003 in the training center at Astec, Inc., located at 4101 Jerome Avenue, Chattanooga, Tennessee.



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