

ASTEC INDUSTRIES INC
Form 10-Q
November 08, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-14714

Astec Industries, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction of incorporation or organization)

62-0873631

(I.R.S. Employer Identification No.)

1725 Shepherd Road, Chattanooga, Tennessee

(Address of principal executive offices)

37421

(Zip Code)

(423) 899-5898

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

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

YES

NO

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

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Class
Common Stock, par value \$0.20

Outstanding at November 2, 2007
22,299,125

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31, 2006

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PART I -- FINANCIAL INFORMATION**Item 1. Financial Statements****Astec Industries, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets**

(in thousands)

September 30,

2007

(unaudited)

December 31, 2006

ASSETS			
Current Assets:			
Cash and cash equivalents	\$	48,164	\$ 44,878
Trade receivables, net		82,036	64,591
Other receivables		1,288	2,083
Inventories		201,982	157,836
Prepaid expenses and other		4,675	5,750
Deferred income tax assets		9,350	7,880
Total current assets		347,495	283,018
Property and equipment, net		137,312	113,914
Goodwill		25,754	19,384
Other		16,935	5,547
Total assets	\$	527,496	\$ 421,863
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$	55,303	\$ 42,561
Accrued product warranty		8,021	7,184
Customer deposits		34,917	22,486
Accrued payroll and related liabilities		9,686	9,298
Accrued loss reserves		2,607	2,976
Income taxes payable		3,421	671
Other accrued liabilities		24,859	19,693
Total current liabilities		138,814	104,869
Deferred income tax liabilities		6,075	6,332
Accrued retirement benefit costs		2,225	3,000
Other		14,346	10,797
Minority interest		833	699
Total shareholders' equity		365,203	296,166
Total liabilities and shareholders' equity	\$	527,496	\$ 421,863

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 206,239	\$ 171,470	\$ 648,216	\$ 548,455
Cost of sales	157,678	130,427	486,339	414,835
Gross profit	48,561	41,043	161,877	133,620
Selling, general, administrative and engineering expenses	31,926	25,270	92,774	80,237
Income from operations	16,635	15,773	69,103	53,383
Interest expense	149	421	765	1,268
Other income, net of expense	638	519	2,038	921
Income before income taxes and minority interest	17,124	15,871	70,376	53,036
Income taxes	5,482	5,807	24,812	19,666
Income before minority interest	11,642	10,064	45,564	33,370
Minority interest	68	38	151	82
Net income	\$ 11,574	\$ 10,026	\$ 45,413	\$ 33,288
Earnings per common share				
Net income:				
Basic	\$ 0.52	\$ 0.47	\$ 2.08	\$ 1.56
Diluted	\$ 0.51	\$ 0.46	\$ 2.03	\$ 1.52
Weighted average common shares outstanding:				
Basic	22,116,275	21,520,512	21,881,565	21,383,889
Diluted	22,581,075	21,927,051	22,393,677	21,960,133

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 45,413	\$ 33,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,136	8,686
Provision for doubtful accounts	327	457
Provision for inventory reserve	2,174	2,827
Provision for warranty reserve	9,105	9,318
Deferred compensation provision (benefit)	2,194	(864)
Purchase/sale of trading security by supplemental executive retirement plan, net	(1,656)	(443)
Stock-based payments	1,395	470
Tax benefit from stock option exercise	(4,269)	(2,639)
Deferred income tax benefit	(2,414)	(530)
(Gain) Loss on sale and disposition of fixed assets	16	(21)
Minority interest in earnings of subsidiary	151	(82)
(Increase) decrease in:		
Trade and other receivables	(6,862)	(15,752)
Inventories	(33,784)	(18,762)
Prepaid expenses and other	1,323	4,729
Other non-current assets	1,124	(1,073)
Increase (decrease) in:		
Accounts payable	7,702	(432)
Accrued product warranty	(8,783)	(7,830)
Customer deposits	12,282	1,362
Income taxes payable	6,864	5,252
Accrued loss reserves	(370)	1,167
Other accrued liabilities	3,962	3,590
Net cash provided by operating activities	47,030	22,718
Cash flows from investing activities:		
Purchase of Peterson, Inc., net of cash acquired of \$1,702	(19,627)	-
Expenditures for property and equipment	(30,628)	(23,102)
Purchase of investment securities	(6,892)	-
Proceeds from sale of property and equipment	174	916
Cash paid for acquisition of minority shares of subsidiary	(106)	(197)
Cash received from sale of minority shares of subsidiary	72	288
Net cash used by investing activities	(57,007)	(22,095)
Cash flows from financing activities:		

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Repayment of loan assumed in purchase of Peterson, Inc.	(7,500)	-
Tax benefit from stock option exercise	4,269	2,639
Purchase/sale of company shares by supplemental executive retirement plan, net	1,468	15
Proceeds from issuance of common stock	13,619	9,201
Net cash provided by financing activities	11,856	11,855
Effect of exchange rate changes on cash	1,407	(777)
Net increase in cash and cash equivalents	3,286	11,701
Cash and cash equivalents at beginning of period	44,878	22,598
Cash and cash equivalents at end of period	\$ 48,164	\$ 34,299

See Notes to Unaudited Condensed Consolidated Financial Statements

Astec Industries, Inc. and Subsidiaries
Condensed Consolidated Statement of Shareholders' Equity
For the Nine Months Ended September 30, 2007
(in thousands, except shares)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Company Shares Held by SERP	Total Shareholders' Equity
Balance December 31, 2006	21,696,374	\$ 4,339	\$ 93,760	\$ 197,661	\$ 2,487	\$ (2,081)	\$ 296,166
Net income				45,413			45,413
Other comprehensive income:							
Foreign currency translation adjustment					2,916		2,916
Change in minority ownership of subsidiary					(4)		(4)
Change in unrecognized pension and post retirement benefit costs					25		25
Comprehensive income							48,350
Stock incentive plan expense, gross			1,395				1,395
FIN 48 adjustment				(65)			(65)
Exercise of stock options and stock to directors, including tax benefits	595,877	119	17,770				17,889
SERP transactions, net			1,038			430	1,468
Balance, September	22,292,251	\$ 4,458	\$ 113,963	\$ 243,009	\$ 5,424	\$ (1,651)	\$ 365,203

30, 2007

See Notes to Unaudited Condensed Consolidated Financial Statements

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

Note 1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Act of 1933. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Astec Industries, Inc. and subsidiaries Annual Report on Form 10-K for the year ended December 31, 2006.

The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Certain reclassifications were made to the prior year presentation to conform to the current year presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Astec Industries, Inc. and subsidiaries Annual Report on Form 10-K for the year ended December 31, 2006.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109, Accounting for Income Taxes" (FIN 48). FIN 48 defines a criterion that an income tax position would have to meet for some or all of the benefit of that position to be recognized in an entity's financial statements. FIN 48 requires that the cumulative effect of applying its provisions be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the Company began applying its provisions effective January 1, 2007. The impact of adopting this statement is described in Note 7.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), which provides guidance on how to measure assets and liabilities that use fair value. SFAS No. 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and the Company will begin applying its provisions effective January 1, 2008. The Company has not yet determined the impact, if any, that the implementation of this statement will have on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. SFAS No. 159 is effective for an entity's fiscal year that begins after November 15, 2007, and the Company will begin applying its provisions effective January 1, 2008. The Company has not yet determined the impact, if any, the implementation of this statement will have on the Company's financial statements.

Note 2. Stock-based Compensation

Under terms of the Company's stock option plans, officers and certain other employees may be granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option is granted. The Company has reserved shares of common stock for exercise of outstanding non-qualified options and incentive options of officers and employees of the Company and its subsidiaries at prices determined by the Board of Directors. In addition, a Non-employee Directors Stock Incentive Plan has been established to allow non-employee directors to have a personal financial stake in the Company through an ownership interest. Directors may elect to receive their compensation in cash, common stock, deferred stock or stock options. Options granted under the Non-employee Directors Stock Incentive Plan and the Executive Officer Annual Bonus Equity Election Plan vest and become fully exercisable immediately. Generally, other options granted vest over 12 months. All stock options have a ten-year term. All granted options were vested prior to December 31, 2006, therefore no stock option expense was recorded in the nine months ended September 30, 2007, and there were no unrecognized compensation costs related to stock options previously granted as of that date. The Company recorded stock option expense of \$21,000 and \$381,000 in the three and nine month periods ended September 30, 2006, respectively.

In August 2006, the Compensation Committee of the Board of Directors implemented a five-year plan to award key members of management restricted stock units each year. The details of the plan were formulated under the 2006 Incentive Plan approved by the Company's shareholders in their annual meeting held in April, 2006. The plan allows up to 700,000 shares to be granted to employees. Units granted each year will be determined based upon the performance of individual subsidiaries and consolidated annual financial performance. Each award will vest at the end of five years from the date of grant, or at the time a recipient reaches age 65, if earlier. On March 8, 2007 management was granted 65,500 restricted stock units, net of forfeitures, for performance during 2006. It is anticipated that an additional 64,900 units will be granted in March 2008 for performance in 2007. Based upon the March 8, 2007 fair value of \$38.76 for the 65,500 units and the September 28, 2007 fair value of \$57.45 for the 64,900 units, \$4,140,000 of compensation costs will be recognized in future periods through 2013. The fair value of the 64,900 restricted stock units will be adjusted quarterly to the period-end market value of the Company's stock until the units are actually granted, which is expected to be in March, 2008. Compensation expense of \$485,000 and \$1,395,000 has been recorded in the three and nine month periods ended September 30, 2007, respectively, to reflect the fair value of the 130,400 total shares amortized over the portion of the vesting period occurring during the three and nine month periods ended September 30, 2007.

Note 3. Receivables

Receivables are net of allowance for doubtful accounts of \$1,732,000 and \$1,781,000 as of September 30, 2007 and December 31, 2006, respectively.

Note 4. Inventories

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

	(in thousands)	
	September 30, 2007	December 31, 2006
Raw Materials	\$ 97,034	\$ 77,229
Work-in-Process	51,972	43,227
Finished Goods	42,695	27,993
Used Equipment	10,281	9,387
Total	\$ 201,982	\$ 157,836

Note 5. Earnings per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net income	\$ 11,574,000	\$ 10,026,000	\$ 45,413,000	\$ 33,288,000
Denominator:				
Denominator for basic earnings per share	22,116,275	21,520,512	21,881,565	