ASTEC INDUSTRIES INC
Form 10-Q
November 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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 001-11595

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 ýNO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES oNO o

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

Large Accelerated Filer ý Accelerated Filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ý

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

Class	Outstanding at November 3, 2009
Common Stock, par value $0.20	22,549,572

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

Astec Industries, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,149	$ 9,674
Trade receivables, net	62,568	71,630
Other receivables	2,465	3,531
Inventories	263,705	285,817
Prepaid expenses and other	11,094	13,747
Deferred income tax assets	10,973	10,700
Total current assets	386,954	395,099
Property and equipment, net	169,559	169,130
Investments	11,123	9,912
Goodwill	30,746	29,658
Other	8,032	9,013
Total assets	$ 606,414	$ 612,812
LIABILITIES AND EQUITY		
Current liabilities:		
Revolving lines of credit	$ -	$ 3,427
Accounts payable	36,444	51,053
Accrued product warranty	8,673	10,050
Customer deposits	30,166	41,385
Accrued payroll and related liabilities	7,903	10,553
Accrued loss reserves	4,015	3,303
Other accrued liabilities	25,066	24,065
Total current liabilities	112,267	143,836
Deferred income tax liabilities	14,262	13,065
Other	14,125	15,877
Total liabilities	140,654	172,778
Shareholders’ equity	465,427	439,226
Noncontrolling interest	333	808
Total equity	465,760	440,034
Total liabilities and equity	$ 606,414	$ 612,812

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	$166,084	$237,443	$560,231	$778,218
Cost of sales	131,367	178,640	439,264	586,906
Gross profit	34,717	58,803	120,967	191,312
Selling, general, administrative and engineering expenses	30,433	34,269	93,466	106,638
Income from operations	4,284	24,534	27,501	84,674
Interest expense	66	276	418	528
Other income, net of expenses	471	260	1,614	1,099
Income before income taxes	4,689	24,518	28,697	85,245
Income taxes	1,320	8,512	10,157	30,593
Net income	3,369	16,006	18,540	54,652
Net income attributable to noncontrolling interest	25	44	16	99
Net income attributable to controlling interest	$3,344	$15,962	$18,524	$54,553
Earnings per common share				
Net income attributable to controlling interest:				
Basic	$0.15	$0.72	$0.83	$2.45
Diluted	$0.15	$0.71	$0.82	$2.41
Weighted average common shares outstanding:				
Basic	22,453,073	22,289,973	22,439,635	22,270,121
Diluted	22,735,064	22,600,978	22,711,526	22,595,174

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net income	$18,540	$54,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,158	12,840
Provision for doubtful accounts, net	782	161
Provision for inventory reserve	3,313	2,810
Provision for warranty reserve	8,048	14,114
Deferred compensation benefit	(536)	(573)
Trading securities transactions, net	(2,106)	(1,829)
Stock-based compensation	705	1,970
Tax benefit from stock option exercise	(44)	(416)
Deferred income tax provision (benefit)	692	(225)
(Gain) loss on sale and disposition of fixed assets	69	(39)
(Increase) decrease in:		
Trade and other receivables	9,346	(6,586)
Inventories	18,547	(41,369)
Prepaid expenses and other	3,565	1,574
Other assets	709	(1,009)
Increase (decrease) in:		
Accounts payable	(14,609)	275
Accrued product warranty	(9,425)	(11,633)
Customer deposits	(11,220)	(5,774)
Income taxes payable	369	2,174
Other accrued liabilities	(2,251)	950
Net cash provided by operating activities	38,652	22,067
Cash flows from investing activities:		
Deposit on acquisition of Dillman Equipment, Inc.	-	(8,000)
Expenditures for property and equipment	(12,392)	(19,639)
Adjustment to purchase price of subsidiary company	(8)	-
Proceeds from sale of property and equipment	196	161
Net cash used by investing activities	(12,204)	(27,478)
Cash flows from financing activities:		
Net repayments under revolving line of credit	(3,427)	--
Tax benefit from stock option exercise	44	416
Cash received from sale of minority shares of subsidiary	-	29
Cash paid for acquisition of minority shares of subsidiary	(639)	(28)
Supplemental Executive Retirement Plan transactions, net	(192)	(221)
Proceeds from issuance of common stock	840	1,261
Net cash provided (used) by financing activities	(3,374)	1,457
Effect of exchange rate changes	3,401	(1,843)

Net increase (decrease) in cash and cash equivalents	26,475	(5,797)
Cash and cash equivalents at beginning of period	9,674	34,636
Cash and cash equivalents at end of period	$36,149	$28,839

See Notes to Unaudited Condensed Consolidated Financial Statements

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Astec Industries, Inc.
Condensed Consolidated Statement of Equity
For the Nine Months Ended September 30, 2009
(in thousands, except shares)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Company Shares Held by SERP	Retained Earnings	Non-controlling Interest	Total Equity
Balance December 31, 2008	22,508,332	$4,502	$ 121,968	$(2,799)	$(1,966)	$317,521	$ 808	$440,034
Net income						18,524	16	18,540
Other comprehensive income:								
Foreign currency translation adjustment				6,242			148	6,390
Change in unrecognized pension and post retirement benefit costs, net of tax				37				37
Comprehensive income							164	24,967
Stock incentive plan expense	6,547	1	704					705
Exercise of stock options	33,037	7	878					885
Purchase of subsidiary company stock							(639)	(639)
SERP transactions, net			19		(211)			(192)
Balance, September 30, 2009	22,547,916	$4,510	$ 123,569	$3,480	$(2,177)	$336,045	$ 333	$465,760

See Notes to Unaudited Condensed Consolidated Financial Statements

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ASTEC INDUSTRIES, INC.
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 ("U.S. GAAP") 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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. Annual Report on Form 10-K for the year ended December 31, 2008.

The condensed consolidated balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Recent Accounting Pronouncements
In September 2006, the Financial Accounting Standards Board ("FASB") issued a statement clarifying how to measure assets and liabilities at fair value. This new guidance applies whenever another U.S. 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 statement also requires additional disclosures in both annual and quarterly reports. Portions of the statement were effective for financial statements issued for fiscal years beginning after November 15, 2007, and the Company began applying those provisions effective January 1, 2008. In February 2008, the FASB issued additional guidance which delayed the effective date of the provisions of the statement concerning all nonfinancial assets and nonfinancial liabilities for one year, except those recognized at fair value in the financial statements on a recurring basis. The Company adopted the delayed provisions of the statements as of January 1, 2009. The adoption of these statements did not have a significant impact on the Company's financial statements.

In December 2007, the FASB issued two statements that impact the way companies account for business combinations and present earnings in their financial statements. The first statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. This standard also establishes disclosure requirements which are intended to enable users to evaluate the nature and financial effects of a business combination. The second statement clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. Both statements were effective for financial statements issued for fiscal years beginning after December 15, 2008, and the Company began applying these provisions effective January 1, 2009. The adoption of these statements has not had a significant impact on the Company's financial position or results of operations to date.

In March 2008, the FASB issued a statement which requires enhanced disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under U.S. GAAP and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company adopted the provisions of the statement as of January 1, 2009. Because the statement applies only to financial statement presentation and disclosure, its adoption did not have a significant impact on the Company's financial position or results of operations.

In April 2008, the FASB issued a pronouncement amending the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the new pronouncement is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The revised guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The Company will apply the provisions of the pronouncement for any new intangible assets acquired after January 1, 2009. The adoption of this pronouncement has not had a significant impact on the Company’s financial position or results of operations to date.

In April 2009, the FASB issued a pronouncement that requires assets acquired and liabilities assumed in business combinations that arise from contingencies be recognized at fair value if fair value can reasonably be estimated. The pronouncement further requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as a contingent consideration of the acquirer and should be initially and subsequently measured at fair value. The new guidance was effective for business combinations on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. As such the Company began applying the provisions of this pronouncement on January 1, 2009. The adoption of these provisions has not had a significant impact on the Company’s financial position or results of operations to date.

In April 2009, the FASB issued a pronouncement which affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction; clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active; and eliminates the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. The new guidance was effective for interim and annual periods ending after June 15, 2009. The Company began applying the provisions of the pronouncement effective April 1, 2009. The adoption of this pronouncement has not had a significant impact on the Company’s financial statements.

In April 2009, the FASB issued a pronouncement that changes existing guidance for determining whether an impairment is other than temporary for debt securities; replaces existing requirements that the entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert that it does not have the intent to sell the security and that it is more likely than not it will not have to sell the security before recovery of its cost basis; requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize the amount over the remaining life of the security; requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income; and requires a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income in certain instances. The pronouncement was effective for interim and annual periods ending after June 15, 2009. The Company began applying its provisions effective April 1, 2009. The adoption of this pronouncement has not had a significant impact on the Company’s financial statements.

In April 2009, the FASB issued a pronouncement that requires an entity to provide disclosures about fair value of financial instruments in both interim and annual financial reports. The statement was effective for interim and annual periods ending after June 15, 2009. The Company began applying the new disclosure requirements in its June 30, 2009 financial statements.

In May 2009, the FASB issued a statement that sets forth general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement was effective for interim and annual periods ending after June 15, 2009. The Company began applying its provision in its June 30, 2009 financial statements. The adoption of this statement did not have a significant impact on the Company’s financial statements.

In June 2009 the FASB issued guidance which establishes the FASB Accounting Standards Codification (the "Codification" or "ASC") as the official single source of authoritative GAAP. All existing accounting standards are superseded by the Codification, and all other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant SEC guidance organized using the same topical structure in separate sections within the Codification. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASU"), which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for interim and annual periods ending after September 15, 2009. The Company adopted the provisions of the Codification beginning with this Quarterly Report on Form 10-Q. The impact on the Company's financial statements is limited to disclosures, as any future references to authoritative accounting literature will no longer reference the prior guidance descriptions.

In August 2009 the FASB issued additional guidance clarifying the measurement of liabilities at fair value. When a quoted price in an active market for the identical liability is not available, the amendments require that the fair value of a liability be measured using one or more of the listed valuation techniques that should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. In addition the amendments clarify that when estimating the fair value of a liability, an entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendment also clarifies how the price of a traded debt security (i.e., and asset value) should be considered in estimating the fair value of the issuer's liability. The amendments were effective immediately. The adoption of this amendment did not have a significant impact on the Company's financial statements.

In October 2009 the FASB issued guidance that supersedes certain previous rules relating to how a company allocates consideration to all of its deliverables in a multiple-deliverable revenue arrangement. The revised guidance eliminates the use of the residual method of allocation in which the undelivered element is measured at its estimated selling price and the delivered element is measured as the residual of the arrangement consideration and alternatively requires that the relative-selling-price method be used in all circumstances in which an entity recognizes revenue for an arrangement with multiple-deliverables. The revised guidance requires both ongoing disclosures regarding an entity's multiple-element revenue arrangements as well as certain transitional disclosures during periods after adoption. All entities must adopt the revised guidance no later than the beginning of their first fiscal year beginning on or after June 15, 2010 with earlier adoption allowed. Entities may elect to adopt the guidance through either prospective application or through retrospective application to all revenue arrangements for all periods presented. The Company plans to adopt the revised guidance effective January 1, 2010 and has not yet determined the impact, if any, the adoption will have on its financial statements.

Note 2. Earnings per Share

Basic earnings per share is determined by dividing net income attributable to controlling interest by the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effects of stock options and restricted stock units calculated using the treasury stock method.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net income attributable to controlling interest	$3,344,000	$15,962,000	$18,524,000	$54,553,000
Denominator:				
Denominator for basic earnings per share	22,453,073	22,289,973	22,439,635	22,270,121
Effect of dilutive securities:				
Employee stock option & incentive plans	182,058	218,824	175,259	235,712
Supplemental Executive Retirement Plan	99,933	92,181	96,632	89,341
Denominator for diluted earnings per share	22,735,064	22,600,978	22,711,526	22,595,174
Net income attributable to controlling interest per share:				
Basic	$0.15	$0.72	$0.83	$2.45
Diluted	$0.15	$0.71	$0.82	$2.41

A total of 1,801 and 1,840 options were antidilutive for the three months ended September 30, 2009 and 2008, respectively. A total of 1,814 and 1,334 options were antidilutive for the nine months ended September 30, 2009 and 2008, respectively. Antidilutive options are not included in the diluted earnings per share computation.

Note 3. Receivables

Receivables are net of allowances for doubtful accounts of $2,159,000 and $1,496,000 as of September 30, 2009 and December 31, 2008, 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, 2009	December 31, 2008
Raw materials and parts	$ 95,039	$ 116,254
Work-in-process	56,514	57,776
Finished goods	94,876	99,807
Used equipment	17,276	11,980
Total	$ 263,705	$ 285,817

The above inventory amounts are net of reserves totaling $16,428,000 and $13,157,000 as of September 30, 2009 and December 31, 2008, respectively.

Note 5. Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation of $148,725,000 and $135,617,000 as of September 30, 2009 and December 31, 2008, respectively.

Note 6. Fair Value Measurements

Current U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The current guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. The Company has various financial instruments that must be measured on a recurring basis including marketable debt securities and a small amount of equity securities held by Astec Insurance Company ("Astec Insurance"), the Company's captive insurance company, and marketable equity securities held in a Supplemental Executive Retirement Plan ("SERP"), an unqualified plan. The financial assets held in the SERP also constitute a liability of the Company for financial reporting purposes.

For cash and cash equivalents, trade receivables, other receivables, revolving debt, accounts payable, customer deposits and accrued liabilities, the carrying amount approximates the fair value because of the short term nature of these instruments. Investments are carried at their fair value based on quoted market prices for identical or similar assets or, where no quoted prices exist, other observable inputs for the asset.

As indicated in the table below, the Company has determined that its financial assets and liabilities at September 30, 2009 are level 1 and level 2 in the fair value hierarchy (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Trading equity securities	$2,416	$-	$-	$2,416
Trading debt securities	4,753	5,997	-	10,750
Total financial assets	$			