

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

Form 10-K

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

For the fiscal year ended December 31, 2012

OR

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)

Registrant's telephone number, including area code:
(423) 899-5898

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)
Common Stock, \$0.20 par value

(Name of each exchange on which registered)
NASDAQ National Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes

No

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 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

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

Yes

No

As of June 30, 2012, the aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant was approximately \$615,588,000 based upon the closing sales price as reported on the NASDAQ National Market System.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

As of February 15, 2013, Common Stock, par value \$0.20 - 22,806,400 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents have been incorporated by reference into the Parts of this Annual Report on Form 10-K indicated:

Proxy Statement relating to Annual Meeting of Shareholders to be held on April 25, 2013

Document

Form 10-K
Part III

ASTEC INDUSTRIES, INC.
2012 FORM 10-K ANNUAL REPORT

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements contained anywhere in this Annual Report on Form 10-K that are not limited to historical information are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding:

- execution of the Company's growth and operation strategy;
- plans for technological innovation;
- compliance with covenants in our credit facility;
- liquidity and capital expenditures;
- sufficiency of working capital, cash flows and available capacity under the Company's credit facilities;
- compliance with government regulations;
- compliance with manufacturing and delivery timetables;
- forecasting of results;
- general economic trends and political uncertainty;
- government funding and growth of highway construction and commercial projects;
- taxes or usage fees;
- interest rates;
- integration of acquisitions;
- industry trends;
- pricing, demand and availability of oil and liquid asphalt;
- pricing, demand and availability of steel;
- development of domestic oil and natural gas production;
- condition of the economy;
- strength of the dollar relative to foreign currencies;
- the success of new product lines;
- presence in the international marketplace;
- suitability of our current facilities;
- future payment of dividends;
- competition in our business segments;
- product liability and other claims;
- protection of proprietary technology;
- demand for products;
- future filling of backlogs;
- employees;
- the seasonality of our business;
- tax assets and reserves for uncertain tax positions;
- critical accounting policies and the impact of accounting changes;
- anticipated start-up dates for our Brazilian operations;
- our backlog;
- ability to satisfy contingencies;
- contributions to retirement plans and plan expenses;
- reserve levels for self-insured insurance plans and product warranties;
- construction of new manufacturing facilities;
- supply of raw materials; and
- inventory.

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

In addition to the risks and uncertainties identified elsewhere herein and in other documents filed by us with the Securities and Exchange Commission, the risk factors described in this document under the caption "Risk Factors" should be carefully considered when evaluating our business and future prospects.

PART I

Item 1. Business

General

Astec Industries, Inc. (the "Company") is a Tennessee corporation which was incorporated in 1972. The Company designs, engineers, manufactures and markets equipment and components used primarily in road building and related construction activities as well as other products discussed below. The Company's products are used in each phase of road building, from quarrying and crushing the aggregate to application of the road surface. The Company also manufactures certain equipment and components unrelated to road construction, including equipment for the mining, quarrying, construction and demolition industries; gas and oil drilling rigs; water well and geothermal drilling rigs; industrial heat transfer equipment; whole-tree pulpwood chippers; horizontal grinders; and blower trucks. The Company also manufactures a line of multiple use plants for cement treated base, roller compacted concrete and ready-mix concrete. The Company is developing and marketing pelletizing equipment used to compress wood and other products into dense pellets for the renewable energy market among other applications. The Company's subsidiaries hold 83 United States patents and 40 foreign patents with 73 patent applications pending and have been responsible for many technological and engineering innovations in the industries in which they operate. The Company's products are marketed both domestically and internationally. In addition to equipment sales, the Company manufactures and sells replacement parts for equipment in each of its product lines and replacement parts for some competitors' equipment. The distribution and sale of replacement parts is an integral part of the Company's business.

The Company's fifteen manufacturing subsidiaries are: (i) Breaker Technology Ltd/Inc., which designs, engineers, manufactures and markets rock breaking systems in addition to processing equipment and utility vehicles for the mining and quarrying industries; (ii) Johnson Crushers International, Inc., which designs, engineers, manufactures and markets portable and stationary aggregate and ore processing equipment; (iii) Kolberg-Pioneer, Inc., which designs, engineers, manufactures and markets aggregate processing equipment for the crushed stone, gravel, manufactured sand, recycle, top soil and remediation markets; (iv) Osborn Engineered Products SA (Pty) Ltd, which designs, engineers, manufactures and markets a complete line of bulk material handling and minerals processing plant and equipment used in the aggregate, mineral mining, metallic mining and recycling industries; (v) Astec Mobile Screens, Inc. which designs, engineers, manufactures and markets mobile screening plants, portable and stationary structures and vibrating screens for the aggregate, recycle and material processing industries; (vi) Telsmith, Inc., which designs, engineers, manufactures and markets aggregate processing and mining equipment for the production and classification of sand, gravel, crushed stone and minerals used in road construction and other applications; (vii) Astec, Inc., which designs, engineers, manufactures and markets hot-mix asphalt plants, concrete mixing plants and related components of each; (viii) CEI Enterprises, Inc., which designs, engineers, manufactures and markets thermal fluid heaters, storage tanks, hot-mix asphalt plants, rubberized asphalt and polymer blending systems; (ix) Heatec, Inc., which designs, engineers, manufactures and markets thermal fluid heaters, process heaters, waste heat recovery equipment, liquid storage systems and polymer and rubber blending systems; (x) Astec Underground, Inc., which designs, engineers, manufactures and markets high pressure diesel powered pump trailers used for fracking and cleaning oil and gas wells and the four track surface miner as well as functioning as a contract manufacturer for other companies, both inside and outside the Astec family of companies; (xi) Carlson Paving Products, Inc., which designs, engineers, manufactures and markets asphalt paver screeds, a commercial paver and a windrow pickup machine; (xii) Roadtec, Inc., which designs, engineers, manufactures and markets asphalt pavers, material transfer vehicles, milling machines and a line of asphalt reclaiming and soil stabilizing machinery; (xiii) Peterson Pacific Corp., which designs, engineers, manufactures and markets whole-tree pulpwood chippers, horizontal grinders and blower trucks; (xiv) GEFCO, Inc., which was acquired in October 2011 and which designs, engineers, manufactures and markets portable drilling rigs and related equipment for the water well, environmental, groundwater monitoring, construction, geothermal, mining and shallow oil and gas exploration and production industries; and (xv) Astec Mobile Machinery GmbH, which is located in Hameln, Germany, and which began operations in the third quarter of 2011 upon the Company's acquisition of existing businesses. The company designs, manufactures and markets asphalt rollers and screeds and a road widener attachment and distributes products produced by other Company subsidiaries, primarily Roadtec, Inc. The Company also has a subsidiary in Australia, Astec Australia Pty Ltd, that markets and installs equipment and services and provides parts in the region for many of the products produced by the Company's manufacturing companies. In addition, the Company entered into an agreement with a Brazilian company in late 2011 to form a company in Brazil with 75% ownership retained by the Company. The jointly owned company began constructing a manufacturing facility during 2012 and expects to begin producing equipment by early 2014 to supply the South American market with various Company products for the aggregate and mining industries.

The Company's strategy is to be the industry's most cost-efficient producer in each of its product lines while continuing to develop innovative new products and provide first class service for its customers. Management believes that the Company is the technological innovator in the markets in which it operates and is well positioned to capitalize on the need to rebuild and enhance roadway and utility infrastructure as well as in other areas in which it offers products and services, both in the United States and abroad.

Segment Reporting

The Company's business units have their own decentralized management teams and offer different products and services. The business units have been aggregated into four reportable business segments based upon the nature of the product or services produced, the type of customer for the products, the similarity of economic characteristics, the manner in which management reviews results and the nature of the production process, among other considerations. The reportable business segments are (i) Asphalt Group, (ii) Aggregate and Mining Group, (iii) Mobile Asphalt Paving Group and (iv) Underground Group. All remaining companies, including the Company, Astec Insurance Company, Peterson Pacific Corp. and Astec Australia Pty Ltd, as well as U.S. federal income tax expenses for all business segments, are included in the "Other Business Units" category for reporting.

Financial information in connection with the Company's financial reporting for segments of a business and for geographic areas under FASB Accounting Standards Codification (ASC) 280 is included in Note 17, Operations by Industry Segment and Geographic Area, to "Notes to Consolidated Financial Statements" presented in Appendix A of this report.

Asphalt Group

The Asphalt Group segment is made up of three business units: Astec, Inc. ("Astec"), Heatec, Inc. ("Heatec") and CEI Enterprises, Inc. ("CEI"). These business units design, engineer, manufacture and market a complete line of asphalt plants, concrete mixing plants, wood pellet plants, and related components of each, heating and heat transfer processing equipment and storage tanks for the asphalt paving and other non-related industries.

Products

Astec designs, engineers, manufactures and markets a complete line of portable, stationary and relocatable hot-mix asphalt plants and related components under the ASTEC® trademark as well as a line of concrete mixing plants introduced by Astec in 2009. An asphalt mixing plant typically consists of heating and storage equipment for liquid asphalt (manufactured by CEI or Heatec); cold feed bins for blending aggregates; a counter-flow continuous type unit (Astec Double Barrel) for drying, heating and mixing; a baghouse composed of air filters and other pollution control devices; hot storage bins or silos for temporary storage of hot-mix asphalt; and a control house. Astec introduced the concept of high plant portability in 1979. Its current generation of portable asphalt plants is marketed as the Six Pack™ and consists of six or more portable components, which can be disassembled, moved to the construction site and reassembled, thereby reducing relocation expenses. High plant portability represents an industry innovation developed and successfully marketed by Astec. Astec's enhanced version of the Six Pack™, known as the Turbo Six Pack™, is a highly portable plant which is especially useful in less populated areas where plants must be moved from job-to-job and can be disassembled and erected without the use of cranes.

Astec developed a Double Barrel Green System (patent pending), which allows the asphalt mix to be prepared and placed at lower temperatures than conventional systems and operates with a substantial reduction in smoke emissions during paving and load-out. Previous technologies for warm mix production rely on expensive additives, procedures and/or special asphalt cement delivery systems that add significant costs to the cost per ton of mix. The Company's new Astec multi-nozzle device eliminates the need for the expensive additives by mixing a small amount of water and asphalt cement together to create microscopic bubbles that reduce the viscosity of the asphalt mix coating on the rock, thereby allowing the mix to be handled and worked at lower temperatures.

The components in Astec's asphalt mixing plants are fully automated and use both microprocessor-based and programmable logic control systems for efficient operation. The plants are manufactured to meet or exceed federal and state clean air standards. Astec also builds batch type asphalt plants and has developed specialized asphalt recycling equipment for use with its hot-mix asphalt plants.

Astec's concrete production equipment is designed to be easy to operate and maintain. Materials are managed with continuous blending using belt scales and variable frequency conveyor drives. Shaft-driven mixers with high-torque folding action deliver a uniform concrete mix. Astec's tower plants, which are designed in modular configurations for either dry or wet arrangements, provide an exciting new alternative in vertical stationary concrete plants.

Astec has nearly completed the R&D phase for its pellet plants. Once completed, Astec expects to be the world's first and only provider of turnkey wood pellet production plants.

Certain of Astec's products are also available through licensing agreements with TIL, Ltd. in India and CCCC Xi'an Road Construction Co. Ltd. in China.

Heatec designs, engineers, manufactures and markets a variety of thermal fluid heaters, process heaters, waste heat recovery equipment, liquid storage systems and polymer and rubber blending systems under the HEATEC® trademark. For the construction industry, Heatec manufactures a complete line of asphalt heating and storage equipment to serve the hot-mix asphalt industry and water heaters for concrete plants. In addition, Heatec builds a wide variety of industrial heaters to fit a broad range of applications, including heating equipment for marine vessels, roofing material plants, refineries, oil sands, energy related processing, chemical processing, rubber plants and the agribusiness. Heatec has the technical staff to custom design heating systems and has systems operating as large as 50,000,000 BTU's per hour.

CEI designs, engineers, manufactures and markets thermal fluid heaters, storage tanks, hot-mix asphalt plants, rubberized asphalt and polymer blending systems under the CEI® trademark. CEI designs and builds heaters with outputs up to 10,000,000 BTU's per hour and portable, vertical and stationary storage tanks up to 40,000 gallons in capacity. CEI's hot-mix plants are built for domestic and international use and employ parallel and counter flow designs with capacities up to 180 tons per hour. CEI is a leading supplier of crumb rubber blending plants in the U.S.

Marketing

Astec markets its hot-mix asphalt products both domestically and internationally. Dillman Equipment, Inc., a manufacturer of asphalt production equipment in Prairie du Chien, Wisconsin, was acquired by Astec in October 2008 and now operates as a division of Astec. The Dillman line of equipment is offered to the market as an addition to the Astec product line. The principal purchasers of asphalt and related equipment are highway contractors. Asphalt equipment, including Dillman products, is sold directly to the customers through Astec's domestic and international sales departments, although independent agents are also used to market asphalt plants and their components in international markets.

Heatec and CEI equipment is marketed through both direct sales and dealer sales. Manufacturers' representatives sell heating products for applications in several industries other than the asphalt industry.

In total, the products of the Asphalt Group segment are marketed by approximately 51 direct sales employees, 18 domestic independent distributors and 53 international independent distributors.

Raw Materials

Raw materials used in the manufacture of products include carbon steel, pipe and various types of alloy steel, which are normally purchased from distributors. Raw materials for manufacturing are normally readily available. Most steel is delivered on a "just-in-time" arrangement from the supplier to reduce inventory requirements at the manufacturing facilities, but some steel is bought and occasionally inventoried.

Competition

This industry segment faces strong competition in price, service and product performance and competes with both large publicly-held companies with resources significantly greater than those of the Company and with various smaller manufacturers. Domestic hot-mix asphalt plant competitors include Terex Corporation, Gencor Industries, Inc., ADM and Almix. In the international market the hot-mix asphalt plant competitors include Ammann, Parker, Cifali, Speco and local manufacturers. The market for the Company's heat transfer equipment is diverse because of the multiple applications for such equipment. Competitors for the construction product line of heating equipment include Gencor Industries, Inc., American Heating, Pearson Heating Systems, Reliable Asphalt Products and Meeker. Competitors for the industrial product line of heating equipment include Sigma Thermal, Fulton Thermal Corporation and Vapor Power International.

Employees

At December 31, 2012, the Asphalt Group segment employed 1,116 individuals, of which 792 were engaged in manufacturing, 144 in engineering and 180 in selling, general and administrative functions.

Backlog

The backlog for the Asphalt Group at December 31, 2012 and 2011 was approximately \$139,828,000 and \$115,775,000, respectively. Management expects substantially all current backlogs to be filled in 2013.

Aggregate and Mining Group

The Company's Aggregate and Mining Group is comprised of seven business units focused on the aggregate, metallic mining, quarrying and recycling markets. These business units achieve their strength by distributing products into niche markets and drawing on the advantages of brand recognition in the global market. These business units are Telsmith, Inc. ("Telsmith"), Kolberg-Pioneer, Inc. ("KPI"), Astec Mobile Screens, Inc. ("AMS"), Johnson Crushers International, Inc. ("JCI"), Breaker Technology Ltd/Breaker Technology Inc. ("BTI"), Osborn Engineered Products, SA (Pty) Ltd ("Osborn") and Astec Agregados E Mineracao Do Brasil LTDA ("Astec Brazil").

Products

Founded in 1906, Telsmith is the oldest subsidiary of the group. The primary markets served under the TELSMITH® trade name are the aggregate, metallic mining and recycling industries.

Telsmith's core products are jaw, cone and impact crushers, as well as vibrating feeders and inclined and horizontal screens. Telsmith also provides consulting and engineering services to provide complete "turnkey" processing systems. Both portable and modular plant systems are available in production ranges from 300 tph to 1500 tph.

Telsmith maintains an ISO 9001:2008 certification, an internationally recognized standard of quality assurance. In addition, Telsmith has achieved CE designation (a standard for quality assurance and safety) on its jaw crusher, cone crusher and vibrating screen products marketed into European Union countries.

Telsmith recently introduced new equipment models and enhancements to existing equipment offerings in several of its product lines. Telsmith's new track-mounted mobile screening plant was designed to provide improved serviceability and increased reliability by incorporating fewer hydraulic cylinders and also provides an improved anti-spin feature and a unique hybrid bearing feature. Telsmith also recently developed a new portable crushing plant for the company's licensee in India, and it modified other existing products to provide additional and improved features and to reduce manufacturing costs.

KPI designs, engineers, manufactures and supports a complete line of aggregate processing equipment for the sand and gravel, mining, quarrying, concrete and asphalt recycling markets under the KPI-JCI product brand name. This equipment, along with the full line of portable and stationary aggregate and ore processing products from JCI and the related screen products from AMS, are all jointly marketed through an extensive network of KPI-JCI and AMS dealers.

KPI products include a complete line of primary, secondary, tertiary and quaternary crushers, including jaw, horizontal shaft impactor, vertical shaft impactor and roll crushers. KPI rock crushers are used by mining, quarrying and sand and gravel producers to crush oversized aggregate to salable size, in addition to their use for recycled concrete and asphalt. Equipment furnished by KPI can be purchased as individual components, as portable plants for flexibility or as completely engineered systems for both portable and stationary applications. Included in the portable area is the highly-portable Fast Pack ® System, featuring quick setup and teardown, thereby maximizing production time and minimizing downtime. Also included in the portable line is the fully self-contained and self-propelled Fast Trax ® track-mounted jaw and horizontal shaft crushers in six different models, which are ideal for either recycle or hard rock applications, allowing the producer to move the equipment to the material. KPI is offering a newly expanded Global Trax line of these track-mounted crushers to focus more specifically on the global market and meet the needs for that type of equipment in more countries.

KPI sand classifying and washing equipment is designed to clean, separate and re-blend deposits to meet the size specifications for critical applications. KPI products include fine and coarse material washers, log washers, blade mills and sand classifying tanks. KPI also offers additional portable and stationary plants to handle the growing needs in specialty sands and fines recovery. Screening plants are available in both stationary and highly portable models and are complemented by a full line of radial stacking and overland belt conveyors.

KPI conveying equipment is designed to move or store aggregate and other bulk materials in radial cone-shaped or windrow stockpiles. The SuperStacker telescoping conveyor and its Wizard Touch® automated controls are designed to add efficiency and accuracy to whatever the stockpile specifications require. High capacity rail and barge loading/unloading material handling systems are an important part of the product segment.

The KPI-JCI product line was recently expanded to include a new fine recovery plant which was designed for aggregate producers requiring a mobile fines recovery plant to support their existing operations by reducing the volume of fine material in their settling ponds without the use of flocculants. The new model can be configured to be completely self-contained, eliminating the need for external equipment during plant set-up and tear-down.

JCI designs, engineers, manufactures and distributes portable and stationary aggregate and ore processing equipment. This equipment is used in the aggregate, mining and recycling industries. JCI's principal products are cone crushers, three-shaft horizontal screens, portable plants, track-mounted plants and replacement parts for competitive equipment. JCI offers completely re-manufactured cone crushers and screens from its service repair facility.

JCI cone crushers are used primarily in secondary and tertiary crushing applications, and come in both remotely adjusted and manually adjusted models. Horizontal screens are low-profile machines for use in both portable and stationary applications. JCI incline screens are available for both standard duty and heavy duty applications, primarily in stationary applications. JCI also manufactures the Combo Screen, a combination of an incline feed section and a horizontal discharge section. The Combo Screen utilizes an oval stroke impulse mechanism, and offers increased throughput capacity in scalping applications where the removal of fines is desired.

Portable plants combine various configurations of cone crushers, horizontal screens, combo screens and conveyors, mounted on tow away chassis. Due to high transportation costs of construction materials, many producers use portable equipment to produce the materials they need close to their job sites. Portable plants allow aggregate producers the ability to quickly and efficiently move their equipment from one location to another as their jobs necessitate.

Track plants combine various configurations of cone crushers, horizontal screens, incline screens and conveyors, mounted on track chassis. These units are fully self-contained and allow operators be producing materials within minutes of driving the equipment off of their transport trucks. The introduction of track mounted crushing and screening plants has enabled contractors to perform jobs that in the past were not economically feasible. JCI's track product line is also a valuable tool for our dealers, allowing them to compete in the large track mounted rental market, which had previously not been available to our dealers.

JCI introduced several new portable and stationary plant models in 2012, which helped JCI's portable plant business grow substantially in 2012. Additionally, a number of new screen models have been introduced in 2012, including bare units and units for portable or stationary plants. Design and manufacturing was completed on a new larger cone crusher during 2012, and the first customer unit was installed and prepared for start-up in early 2013. This new model incorporates many of the proven features found on other JCI cones, but it was designed to enable JCI to compete in higher tonnage applications in both the portable and stationary plant markets, as well as the global mining markets.

AMS designs, engineers, manufactures and markets mobile screening plants, portable and stationary screen structures and vibrating screens designed for the recycle, crushed stone, sand and gravel, industrial and general construction industries. These screening plants include the AMS Vari-Vibe and Duo-Vibe high frequency screens and a new multi-frequency screen. The AMS high frequency screens are used for chip sizing, sand removal and sizing recycled asphalt where conventional screens are not ideally suited. Certain of AMS products are also available through licensing agreements with TIL, Ltd. in India.

During 2012, AMS bolstered its mobile screening line with the addition of a new competitively priced 5' x 20' mobile screen with the primary target markets being sand and gravel, crushed stone, recycle, and organic screening applications. AMS also added to its recycle line with the addition of new model originally designed primarily for use in the RAP market, specifically fractionating; however, this new model will also allow us to expand into concrete, crushed stone and sand and gravel applications.

BTI designs, engineers, manufactures and markets a complete line of stationary rockbreaker systems for the mining, quarry and recycling industries, and it provides large-scale stationary rockbreakers for open pit mining, as well as mid-sized stationary rock breakers for underground applications. BTI also designs, engineers, manufactures and markets a complete line of four wheel drive articulated production and utility vehicles for underground mining.

In addition to supplying equipment for the mining and quarry industries, BTI also designs, manufactures and markets a complete line of hydraulic breakers, compactors and demolition attachments for the North American construction and demolition markets.

BTI maintains ISO9001:2008 and 14001:2004 certifications, internationally recognized standards of quality and environmental assurance. BTI offers an extensive aftermarket sales and service program through a highly qualified and trained dealer network.

Recent or planned additions to the BTI product line include a new stationary rockbreaking system, as well as new models in other product lines including a new hammer scaler, a new multi-purpose mine utility vehicle and a new turntable boom. The new stationary rockbreaker system is believed to be the largest in the world and was designed to work on vibratory crusher installations in strip mining applications. Four models of this series are planned with 48 foot, 54 foot, 58 foot and 64 foot reach and the series is capable of handling 8,500 to 20,000 FT LB class breakers. A new hammer scaler was introduced in 2011 and is a cost-effective mobile underground scaling machine, which complements the existing BTI scaler product line and competes better with less expensive units for smaller heading and less demanding applications. BTI's new multi-purpose mine utility vehicle is a four wheel drive, hydraulic power train, 4 ton capacity supervisor vehicle/utility vehicle and is slated for manufacturing in the first quarter of 2013. A new turntable boom was developed with a new light duty swing post for the aggregate market. The design will include a turntable bearing allowing for more compact mounting, a greater range of motion and increased swing torque. BTI is also modifying its series of turntable booms for use in the waste transfer industry.

Osborn maintains ISO:9000; 14000 and 18000 certifications for quality assurance and designs, engineers, manufactures and markets a complete line of bulk material handling and minerals processing equipment. This equipment is used in the aggregate, mining, metallurgical and recycling industries. Osborn has been a licensee of TelSmith's technology for over 60 years. In addition to TelSmith, Osborn also manufactures products pursuant to licenses from American Pulverizer (USA) and Mogensen (UK) and has an in-house brand, Hadfields. Osborn also offers the following equipment: mineral sizers, single and double-toggle jaw crushers; core crushers; rotary breakers; roll crushers; rolling ring crushers; mills; apron feeders; out-of-balance or exciter-driven screens and feeders; modular crushing and screening plants; and a full range of idlers.

Osborn has recently added a number of new products to its product offerings, including a 300 HP gyratory crusher for secondary applications, horizontal shaft impactors, a new out-of-balance exciter gearbox, a new range of double roll crushers, and numerous modernizations and updates to its existing product lines.

Astec Brazil is in the process of constructing a manufacturing facility in Brazil. To date, limited site preparation has been performed; however the 15,000 square-meter facility is scheduled to open in late 2013. Manufacturing operations are expected to commence in January 2014. The facility is being built on a 59,140 square-meter property located in Vespasiano, Minas Gerais, Brazil located in the southeastern part of the country. Manufacturing operations, sales, distribution and product support will be located within the new facility which is expected to employ approximately 120 employees at full capacity. The new facility will initially manufacture stationary jaw and cone crushers, vibrating feeders, screens and track-mounted crushing units, representing the brands of AMS, KPI-JCI, and Telsmith. The Company also plans to manufacture other product lines at the facility in the future, such as BTI products for underground mining. Once fully funded, Astec Brazil is expected to be 75% owned by the Company, with the other 25% being owned by MDE, a recognized leader in providing material handling solutions to the Brazilian market.

Prior to completion of the facility, Astec Brazil is operating as a distributor for other Astec Aggregate and Mining companies in the South American market.

Marketing

Aggregate processing and mining equipment is marketed by approximately 105 direct sales employees, 126 domestic independent distributors and 143 international independent distributors. The principal purchasers of aggregate processing equipment include highway and heavy equipment contractors, open mine operators, quarry operators and foreign and domestic governmental agencies.

Raw Materials

Raw materials used in the manufacture of products include carbon steel and various types of alloy steel, which are normally purchased from distributors. Raw materials for manufacturing are normally readily available. BTI purchases hydraulic breakers under a purchasing arrangement with a South Korean supplier. The Company believes the South Korean supplier has sufficient capacity to meet the Company's anticipated demand; however, alternative suppliers exist for these components should any supply disruptions occur.

Competition

The Aggregate and Mining Group faces strong competition in price, service and product performance. Aggregate and Mining equipment competitors include Metso, Cedarapids, Powerscreen and Finlay, Pegson, Jacques, subsidiaries of Terex Corporation, Deister, F. L. Smith, McLanahan, Sandvik, and other smaller manufacturers, both domestic and international.

Employees

At December 31, 2012, the Aggregate and Mining Group segment employed 1,599 individuals, of which 1,125 were engaged in manufacturing, 135 in engineering and engineering support functions and 341 in selling, general and administrative functions.

Telsmith has a labor agreement covering approximately 192 manufacturing employees which expires on September 17, 2013. None of Telsmith's other employees are covered by a collective bargaining agreement. Approximately 125 of Osborn's manufacturing employees are members of two national labor unions with labor agreements that expire on June 30, 2014.

Backlog

At December 31, 2012 and 2011, the backlog for the Aggregate and Mining Group was approximately \$88,123,000 and \$98,262,000, respectively. Management expects all current backlogs to be filled in 2013.

Mobile Asphalt Paving Group

The Mobile Asphalt Paving Group is comprised of Roadtec, Inc. ("Roadtec"), Carlson Paving Products, Inc. ("Carlson") and Astec Mobile Machinery GmbH ("Astec Mobile Machinery"), which began operations in the third quarter of 2011 in Hameln, Germany. Roadtec designs, engineers, manufactures and markets asphalt pavers, material transfer vehicles, milling machines and a line of asphalt reclaiming and soil stabilizing machinery. Carlson designs, engineers and manufactures asphalt paver screeds that attach to the asphalt paver to control the width and depth of the asphalt as it is applied to the roadbed. Carlson also manufactures windrow pickup machines which transfer hot mix asphalt from the road bed into the paver's hopper and a heavy duty commercial class 8 ft. asphalt paver designed for parking lots, residential and other secondary roads. Astec Mobile Machinery serves as a distributor for Roadtec's products in Europe and also designs, manufactures and markets screeds primarily for road construction markets outside the United States as well as a small road widener attachment.

Products

Roadtec's Shuttle Buggy® is a mobile, self-propelled material transfer vehicle which allows continuous paving by separating truck unloading from the paving process while remixing the asphalt. A typical asphalt paver must stop paving to permit truck unloading of asphalt mix. By permitting continuous paving, the Shuttle Buggy® allows the asphalt paver to produce a smoother road surface, while reducing the time required to pave the road surface and reducing the number of haul trucks required. As a result of the pavement smoothness achieved with this machine, certain states now require the use of the Shuttle Buggy®. Studies using infrared technology have revealed problems caused by differential cooling of the hot-mix during hauling. The Shuttle Buggy® remixes the material to a uniform temperature and gradation, thus eliminating these problems.

Asphalt pavers are used in the application of hot-mix asphalt to the road surface. Roadtec pavers have been designed to minimize maintenance costs while exceeding road surface smoothness requirements. Roadtec also manufactures a paver model designed for use with the material transfer vehicle described above. This paver model is designed to carry and spray tack coat directly in front of the hot mix asphalt in a single process.

Roadtec manufactures milling machines designed to remove old asphalt from the road surface before new asphalt mix is applied. Roadtec's milling machine lines, for larger jobs, are manufactured with a simplified control system, wide conveyors, direct drives and a wide range of horsepower and cutting capabilities to provide versatility in product application. In addition to its larger half-lane and up highway class milling machines, Roadtec also manufactures a smaller, utility class machine for 2 ft. to 4ft. cutting widths. In addition, two new models of cold planers will be introduced in 2013: a dedicated one meter (40") cutting width machine and a smaller 12" to 24" utility class cold plane, both mounted on wheels.

Roadtec will produce 3 soil stabilizers in 2013 at configurations of 440HP, 625HP and 755HP. These machines double as asphalt reclaiming machines for road rehabilitations in addition to their primary purpose of stabilizing soil sub-grades with additives to provide an improved base on which to pave. One additional model is being developed for production beginning in late 2013.

Carlson's patented screeds are part of the asphalt paving machine that places asphalt on the roadbed at a desired thickness and width while smoothing and compacting the surface. Carlson screeds can be configured to fit many types of asphalt paving machines. A Carlson screed uses a hydraulic powered generator to electrify elements that heat a screed plate so that asphalt will not stick to it while paving. A generator is also available to power tools or lights for night paving. Carlson offers options which allow extended paving widths and the addition of a curb on the road edge. Carlson's commercial class 8 ft. paver fills the void between competitors commercial pavers, which tend to be lighter and less robust machines and Roadtec's highway class paver line.

Astec Mobile Machinery is functioning primarily as a distributor for Roadtec products in Europe. Additionally, it designs and manufactures screeds and a small road widener attachment designed to meet the unique needs of the European market. An additional tamper bar screed is being developed for introduction into the European market in 2013.

Marketing

The Mobile Asphalt Paving Group equipment is marketed both domestically and internationally to highway and heavy equipment contractors, utility contractors and foreign and domestic governmental agencies. Mobile construction equipment and factory authorized machine rebuild services are marketed both directly and through dealers. This segment employs 39 direct sales staff, 74 domestic independent distributors and 17 international independent distributors including Astec-owned distributors in Australia and Germany.

Raw Materials

Raw materials used in the manufacture of products include carbon steel and various types of alloy steel, which are normally purchased from distributors and other sources. Raw materials for manufacturing are normally readily available. Most steel is delivered on a "just-in-time" arrangement from suppliers to reduce inventory requirements at the manufacturing facilities, but some steel is occasionally inventoried after purchase. Components used in the manufacturing process include engines, gearboxes, power transmissions and electronic systems.

Competition

The Mobile Asphalt Paving Group faces strong competition in price, service and performance. Paving equipment and screed competitors include Weiler, Caterpillar Paving Products, Inc., a subsidiary of Caterpillar, Inc., Volvo Construction Equipment, CMI Corporation, a subsidiary of Terex Corporation, Vogeles America, a subsidiary of Wirtgen America, Dynapac, a subsidiary of Atlas-Copco and Lee Boy. The segment's milling machine equipment competitors include Wirtgen, CMI, Caterpillar, Bomag, Dynapac and Volvo.

Employees

At December 31, 2012, the Mobile Asphalt Paving Group segment employed 509 individuals, of which 331 were engaged in manufacturing, 40 in engineering and engineering support functions and 128 in selling, general and administrative functions.

Backlog

The backlog for the Mobile Asphalt Paving Group segment at December 31, 2012 and 2011 was approximately \$4,265,000 and \$6,149,000, respectively. Management expects all current backlogs to be filled in 2012. This segment typically operates with a smaller backlog in relation to sales than the Company's other segments as many customers expect immediate delivery due to the types of products being sold and the lead times typically available on competitors' equipment sold through dealers.

Underground Group

During most of 2012 the Underground Group consisted of three manufacturing companies, Astec Underground, Inc. ("Astec Underground"), American Augers, Inc. ("American Augers") and GEFCO, Inc. ("GEFCO") which was acquired by the Company in October 2011. During late 2012, the Company sold American Augers and the large trencher product line of Astec Underground. GEFCO designs, engineers and manufactures a complete line of drilling rigs for the oil and gas, geothermal and water well industries as well as its line of King Oil tools. Astec Underground continues to produce high pressure diesel powered pump trailers used for fracking and cleaning oil and gas wells, in addition to the four track surface miner. Astec Underground also serves as a contract manufacturer for other companies, both inside and outside the Astec family of companies.

Products

Astec Underground's four track surface miner is a maneuverable 1,650-horsepower miner that can cut through rock ten feet wide and up to twenty-six inches deep in a single pass. When equipped with a GPS unit and an automatic grade and slope system, the surface miner allows road construction contractors to match the exact specifications of a survey plan.

In 2012, Astec Underground began manufacturing and selling a trailer mounted double fluid pumper for use in the hydraulic fracturing and the oil and gas extraction industries. The unit comes complete with engines, transmissions, gearboxes, application specific cooling packages, displacement tank, plumbing and all related controls.

GEFCO, which began operations in 1931, manufactures portable drilling rigs and related equipment for the water well, environmental, groundwater monitoring, construction, mining and shallow oil and gas exploration and production industries. GEFCO's EarthPro® Geothermal Drill, introduced in 2009, features a heavy-duty mast with a dual rack and pinion drive system. Other features distinguishing this drill from its competitors are an automated rod loading system, a tethered two speed ground drive system and dual multi-function joystick controls. The Earth Pro® offers increased productivity in a drill/trip out application due to its pull up / pull down capacity, three speed drive motors, and the ability to be operated by one person versus the usual three person operation.

During 2012, GEFCO's manufacturing facilities were extensively upgraded and modernized to prepare GEFCO for its expected growth and to improve manufacturing efficiencies.

Marketing

Astec Underground typically distributes its pump trailers and surface miner products directly to the end users. GEFCO primarily markets its products domestically and internationally directly to the end users utilizing a combination of employee and independent sales agents. This segment employs a total of 22 direct sales staff.

Raw Materials

Raw materials used in the manufacture of products include carbon steel and various types of alloy steel, which are normally purchased from distributors and other sources. Raw materials for manufacturing are normally readily available. Most steel is delivered on a "just-in-time" arrangement from suppliers to reduce inventory requirements at the manufacturing facilities, but some steel is occasionally inventoried after purchase. Components used in the manufacturing process include engines, hydraulic pumps and motors, gearboxes, power transmissions and electronic systems.

Competition

The Underground Group segment faces strong competition in price, service and product performance and competes with both large companies with resources significantly greater than those of the Company and with various smaller manufacturers. Major competitors include Versa Drill, Schramm, Atlas Copco, National Oil Well, Blohm & Vos, Oil Country, BVM, NOV/Rolligon, Stewart & Stevenson and Dragon.

Employees

At December 31, 2012, the Underground Group segment employed 351 individuals, of which 277 were engaged in manufacturing, 23 in engineering and 51 in selling, general and administrative functions. Included in the totals are 190 employees of GEFCO. GEFCO has a collective bargaining agreement in place for approximately 80 manufacturing employees. The current agreement expires on April 20, 2013.

Backlog

The backlog for the Underground Group segment at December 31, 2012 and 2011 was approximately \$13,904,000 and \$21,342,000, respectively. The amount for 2011 has been adjusted to exclude the American Augers backlog for presentation purposes as the company was sold during 2012. Management expects all current backlogs to be filled in 2013.

Other Business Units

This category consists of the Company's business units that do not meet the requirements for separate disclosure as an operating segment. At December 31, 2012, these other operating units included Peterson Pacific Corp. ("Peterson"), Astec Australia Pty Ltd ("Astec Australia"), Astec Insurance Company and Astec Industries, Inc., the parent company. Peterson designs, engineers, manufactures and distributes whole-tree pulpwood chippers, biomass chippers, horizontal grinders and blower trucks. Astec Australia was formed in October 2008 and is the sole distributor of many of the company's product lines in Australia and New Zealand. As a distributor, Astec Australia sells, installs, services and provides parts support for many of the products produced by the Company's manufacturing companies. Astec Insurance Company is a captive insurance company.

Products

The primary markets served by Peterson are the wood grinding, chipping and blower truck markets. Peterson produces 3 models of whole-tree pulpwood chippers ranging from 765 to 1200 horsepower, 2 flail delimiters, 2 drum chipper models, 9 horizontal grinder models, 2 blower truck models and 2 self-contained blower trailers. A deck screen model is produced for Peterson by JCI. The horizontal grinders range from 475 to 1200 HP. Peterson has granted rights under a licensing agreement to Morbark, USA, whereby Morbark may produce and sell certain grinder equipment covered by a Peterson patent. Peterson introduced a new track chipper model in 2012.

Since its inception, Astec Australia has marketed relocatable and portable asphalt plants and components produced by Astec, Heatec and CEI, asphalt paving equipment and components produced by Roadtec and Carlson, and trenching equipment produced by Astec Underground. In 2009, Astec Australia added equipment manufactured by the Company's Aggregate & Mining Group to its product offerings. In addition to selling equipment, Astec Australia also installs, services and provides spare parts support for the equipment it sells and for other equipment its customers carry in their fleets.

Marketing

Peterson markets its machines and spare parts both domestically and internationally in the wood grinding, chipping and blower truck industries. The disc chippers and debarkers primarily serve the pulp and paper industry. The drum chippers primarily serve the biomass energy market. The grinders serve the compost, mulch, biomass energy and construction and demolition recycling markets. Blower trucks and trailers are used primarily in landscape and erosion control markets. Domestic sales are accomplished through a combination of 16 independent distributors and 9 direct sales and support personnel. The international market is served with 10 independent distributors plus direct sales to customers in some countries. The principal customers of Peterson products are independent contractors who supply the markets listed above. Municipal governments also purchase waste grinders.

Astec Australia continues to enjoy strong partnerships with key large corporate customers, but it has expanded its customer base by actively marketing products and services to a broader range of customers. Astec Australia plans to focus on growing its existing business operations by identifying areas of competitive advantage. Management believes that these opportunities will provide additional exposure to infrastructure development as well as in the aggregate and mining sectors. The continuing gradual addition of other Company product lines will allow Astec Australia to access market segments not previously serviced. Management believes that Astec Australia has the organizational structure (sales professionals, construction personnel, service technicians and administrative personnel) and operating systems, which are well established, that will allow the business to continue to grow and expand the number of business locations, sales volume, product offerings and geographical dispersion of equipment sold. Australia and New Zealand are expected to remain the company's key markets; however, the company also plans to pursue opportunities in other areas of the Pacific Rim and in Southeast Asia. Astec Australia opened a new office in Tullamarine, Australia in 2012, which gives the company representation on both the east and west coasts of Australia.

Raw Materials

Raw materials used in the manufacture of products include carbon steel and various types of alloy steel, which are normally purchased from distributors and other sources. Raw materials for manufacturing are normally readily available. Most steel is delivered on a "just-in-time" arrangement from the supplier to reduce inventory requirements at the manufacturing facilities, but some steel is occasionally inventoried after purchase. Purchased components used in the manufacturing process include engines, gearboxes, power transmissions and electronic control systems.

Competition

Peterson has strong competitors based on product performance, price and service. The principal competitors in North America for high speed grinders are Morbark, Vermeer, Bandit, Diamond Z and CBI, along with other smaller competitors. Internationally, Doppstadt, Jenz and other smaller companies compete in the grinder segment. Mobile chipper competitors include Morbark, Precision, Doppstadt and other smaller companies. The principal competitors in the blower truck business are Finn and Express Blower (a division of Finn).

Astec Australia's competitors in each product line are typically the same companies that compete with the Company in other locations. Competitors for asphalt plants, mobile asphalt equipment, underground equipment and aggregate and mining equipment are primarily overseas manufacturers who are therefore subject to the same importation issues as Astec Australia. The price impact of competition between European, American and Asian products is dependent primarily on the relationship between the US dollar and the Euro exchange rate as compared to the Australian dollar.

Employees

At December 31, 2012, the Other Business Units segment employed 285 individuals, of which 200 were employed by Peterson and 46 were employed by Astec Australia. Peterson has 111 employees engaged in manufacturing, 31 in engineering and 58 in selling and general and administrative functions. Astec Australia has 22 employees engaged in service and installation work and 24 in selling and general and administrative functions. The remaining 39 employees are engaged in selling and general and administrative functions at the parent company.

Backlog

The backlog for the Other Business Units segment, all of which is attributable to Peterson and Astec Australia, at December 31, 2012 and 2011 was approximately \$17,671,000 and \$27,090,000, respectively. Management expects all current backlogs to be filled in 2013.

Common to All Operating Segments

Although the Company has four reportable business segments, the following information applies to all operating segments of the Company.

Raw Materials

Steel is a major component in the Company's equipment. Moderate steel price increases occurred during the fourth quarter of 2012. Steel demand appears relatively weak for the first quarter of 2013 with short mill lead times for most products. Management expects demand to strengthen ahead of the second quarter, and in balance with this trend, expects steel prices to increase moderately as mill lead times return to more seasonably normal levels. It is uncertain, however, if these trends will continue throughout the remainder of 2013. The Company continues to utilize forward-looking contracts coupled with advanced steel purchases to minimize the impact of the price increases. The Company will review the trends in steel prices as we progress toward the second half of 2013 and establish future contract pricing accordingly.

Government Regulations

The Company is subject to various laws and governmental regulations concerning environmental matters and employee safety and health in the United States and other countries. The Environmental Protection Agency, the Occupational Safety & Health Administration, other federal agencies and certain state agencies have the authority to promulgate regulations that have an effect on the Company's operations. Many of these federal and state agencies may seek fines and penalties for violations of these laws and regulations. The Company has been able to operate under these laws and regulations without any materially adverse effect on its business.

None of the Company's operating segments operate within highly regulated industries. However, air pollution control equipment manufactured by the Company, principally for hot-mix asphalt plants, must comply with certain performance standards promulgated by the federal Environmental Protection Agency under the Clean Air Act applicable to "new sources" or new plants. Management believes the Company's products meet all material requirements of such regulations and of applicable state pollution standards and environmental protection laws.

In addition, due to the size and weight of certain equipment the Company manufactures, the Company and its customers may encounter conflicting state regulations on maximum weights transportable on highways. Also, some states have regulations governing the operation of asphalt mixing plants, and most states have regulations relating to the accuracy of weights and measures, which affect some of the control systems manufactured by the Company.

Compliance with these government regulations has no material effect on capital expenditures, earnings, or the Company's competitive position within the market.

Employees

At December 31, 2012, the Company and its subsidiaries employed 3,860 individuals, of which 2,658 were engaged in manufacturing, 373 in engineering, including support staff, and 829 in selling, administrative and management functions.

Other than the Telsmith and Osborn labor agreements described under the Employee subsection of the Aggregate and Mining Group and the GEFCO labor agreement described under the Employee subsection of the Underground Group, there are no other collective bargaining agreements applicable to the Company. The Company considers its employee relations to be good.

Manufacturing

The Company manufactures many of the component parts and related equipment for its products, while several large components of its products are purchased "ready-for-use". Such items include engines, axles, tires and hydraulics. In many cases, the Company designs, engineers and manufactures custom component parts and equipment to meet the particular needs of individual customers. Manufacturing operations during 2012 took place at 20 separate locations. The Company's manufacturing operations consist primarily of fabricating steel components and the assembly and testing of its products to ensure that the Company achieves quality control standards.

Seminars and Technical Bulletins

The Company periodically conducts technical and service seminars, which are primarily for dealer representatives, contractors, owners, employees and other users of equipment manufactured by the Company. In 2012, approximately 455 representatives of contractors and owners of hot-mix asphalt plants attended seminars held by the Company in Chattanooga, Tennessee. These seminars, which are taught by Company management and employees, along with select outside speakers and discussion leaders, cover a range of subjects including, but not limited to, technological innovations in the hot-mix asphalt, aggregate processing, paving, milling and recycling markets.

The Company also sponsors executive seminars for the management of the customers of Astec, Heatec, CEI and Roadtec. Primarily, members of the Company's management conduct the various seminars, but outside speakers and discussion leaders are also utilized.

During 2012, seven service training seminars were held at the Roadtec facility for approximately 710 customer representatives, and four remote seminars were conducted at other locations for approximately 200 additional customer personnel. Telsmith conducted three technical seminars for approximately 116 customer and dealer representatives during 2012 at its facility in Mequon, Wisconsin. KPI, JCI and AMS jointly conduct NDC (National Dealers Conference), an annual dealer event. The event offers the entire dealer network a preview of future products, marketing and promotional programs to help dealers operate successful businesses. In addition to this event, the companies also provide factory customer and dealer training and on-site local, regional and national sales training programs throughout the year.

In addition to seminars, the Company publishes a number of technical bulletins and information bulletins detailing various technological and business issues relating to the asphalt industry.

Patents and Trademarks

The Company seeks to obtain patents to protect the novel features of its products and processes. The Company's subsidiaries hold 83 United States patents and 40 foreign patents. There are 73 United States and foreign patent applications pending.

The Company and its subsidiaries have 82 trademarks registered in the United States, including logos for Astec, Astec Dillman, Astec Underground, Carlson Paving, CEI, Gefco, Heatec, JCI, Peterson Pacific, Roadtec, and Telsmith, and the names ASTEC, CARLSON, HEATEC, JCI, KOLBERG PIONEER, PETERSON, ROADTEC and TELSMITH, as well as a number of other product names. The Company also has 53 trademarks registered in foreign jurisdictions, including Australia, Brazil, Canada, China, France, Germany, Great Britain, India, Italy, Mexico, South Africa, South Korea, Thailand, Vietnam and the European Union. The Company and its subsidiaries have 47 United States and foreign trademark registration applications pending.

Engineering and Product Development

The Company dedicates substantial resources to engineering and product development. At December 31, 2012, the Company and its subsidiaries had 373 full-time individuals employed in engineering and design capacities.

Seasonality and Backlog

Revenues for recent years, adjusted for acquisitions, have been strongest during the first half of the year, with the second half of the year consistently being weaker. We expect future operations in the near term to be typical of this historical trend.

As of December 31, 2012, the Company had a backlog for delivery of products at certain dates in the future of approximately \$263,791,000. At December 31, 2011, the total backlog was approximately \$268,618,000, as adjusted to exclude the American Augers backlog. The Company's contracts reflected in the backlog are not, by their terms, subject to termination. Management believes the Company is in substantial compliance with all manufacturing and delivery timetables.

Competition

Each business segment operates in domestic markets that are highly competitive regarding price, service and product quality. While specific competitors are named within each business segment discussion above, imports do not generally constitute significant competition for the Company in the United States, except for milling machines and track mounted crushers. In international sales efforts, however, the Company many times competes with foreign manufacturers that may have a local presence in the market the Company is attempting to penetrate.

In addition, asphalt and concrete are generally considered competitive products as a surface choice for new roads and highways. A portion of the interstate highway system is paved in concrete, but over 90% of all surfaced roads in the United States are paved with asphalt. Although concrete is used for some new road surfaces, asphalt is used for most resurfacing.

Available Information

The Company's internet website can be found at www.asticindustries.com. We make available, free of charge on or through our internet website, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is filed with, or furnished to, the Securities and Exchange Commission. Information contained in our website is not part of, and is not incorporated into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

Downturns in the general economy or the commercial and residential construction industries may adversely affect our revenues and operating results.

General economic downturns, including downturns in the commercial and residential construction industries, could result in a material decrease in our revenues and operating results. Demand for many of our products, especially in the commercial construction industry, is cyclical. Sales of our products are sensitive to the states of the U.S., foreign and regional economies in general, and in particular, changes in commercial construction spending and government infrastructure spending. In addition, many of our costs are fixed and cannot be quickly reduced in response to decreased demand. The following factors could cause a downturn in the commercial and residential construction industries:

- a decrease in the availability of funds for construction;
- declining economy domestically and internationally;
- labor disputes in the construction industry causing work stoppages;
- rising gas and fuel oil prices;
- rising steel prices and steel surcharges;
- rising interest rates;
- energy or building materials shortages;
- inclement weather; and
- availability of credit for customers.

Downturns in the general economy and restrictions in the credit markets may negatively impact our earnings, cash flows and/or financial position and access to financing sources by the Company and our customers.

Worldwide economic conditions and the international credit markets have significantly deteriorated in recent years and will possibly remain depressed for the foreseeable future. Continued deterioration of economic conditions and credit markets could adversely impact our earnings as sales of our products are sensitive to general declines in U.S. and foreign economies and the ability of our customers to obtain credit. In addition, we rely on the capital markets and the banking markets to meet our financial commitments and short-term liquidity needs if internal funds are not available from our operations. Further disruptions in the capital and credit markets, or deterioration of our creditors' financial condition, could adversely affect the Company's ability to draw on its revolving credit facility. The Company's current credit facility expires in April 2017, and the restrictions in the credit markets could make it more difficult or expensive for us to replace our current credit facility, enter into a new credit facility or obtain additional financing.

A decrease or delay in government funding of highway construction and maintenance may cause our revenues and profits to decrease.

Many of our customers depend on government funding of highway construction and maintenance and other infrastructure projects. Any decrease or delay in government funding of highway construction and maintenance and other infrastructure projects could cause our net sales and profits to decrease. Historically, federal government funding of infrastructure projects has typically been accomplished through bills that establish funding over a multi-year period, such as the Safe, Accountable, Flexible and Efficient Transportation Equity Act - A Legacy for Users ("SAFETEA-LU"), which provided \$286.5 billion to fund federal transit projects from 2004 to 2009. SAFETEA-LU funding expired on September 30, 2009, and federal transportation funding has operated on a number of shorter term appropriations since that date. The most recent funding legislation, commonly referred to as Map-21, was passed in July 2012 and funds federal transportation expenditures through September 30, 2014.

With the current political environment in Washington, the level of funding for federal highway projects is uncertain. Although continued funding is expected, it may be at lower levels than in the past, and Congress may not enact long-term funding acts in the near future. In addition, Congress could pass legislation in future sessions that would allow for the diversion of previously appropriated highway funds for other national purposes, or it could restrict funding of infrastructure projects unless states comply with certain federal policies.

The cyclical nature of our industry and the customization of the equipment we sell may cause adverse fluctuations to our revenues and operating results.

We sell equipment primarily to contractors whose demand for equipment depends greatly upon the volume of road or utility construction projects underway or to be scheduled by both government and private entities. The volume and frequency of road and utility construction projects is cyclical; therefore, demand for many of our products is cyclical. The equipment we sell is durable and typically lasts for several years, which also contributes to the cyclical nature of the demand for our products. As a result, we may experience cyclical fluctuations to our revenues and operating results.

An increase in the price of oil or decrease in the availability of oil could reduce demand for our products. Significant increases in the purchase price of certain raw materials used to manufacture our equipment could have a negative impact on the cost of production and related gross margins.

A significant portion of our revenues relates to the sale of equipment involved in the production, handling, recycling or installation of asphalt mix. Liquid asphalt is a byproduct of the refining of oil, and asphalt prices correlate with the price and availability of oil. An increase in the price of oil or a decrease in the availability of oil would increase the cost of producing asphalt, which would likely decrease demand for asphalt, resulting in decreased demand for many of our products. This would likely cause our revenues and profits to decrease. Rising gasoline, diesel fuel and liquid asphalt prices will also adversely impact the operating and raw material costs of our contractor and aggregate producer customers, and if such customers do not properly adjust their pricing, they could experience reduced profits resulting in possible delays in purchasing capital equipment.

Steel is a major component in the Company's equipment. Steel prices fluctuate routinely and are expected to increase during 2013. Our reliance on third-party suppliers for steel and other raw materials exposes us to volatility in the prices and availability of these materials. Price increases or a decrease in the availability of these raw materials could increase our operating costs and adversely affect our financial results.

Acquisitions that we have made in the past and future acquisitions involve risks that could adversely affect our future financial results.

We have completed several acquisitions in the past, including the acquisition of the GEFCO division of Blue Tee Corp. and the businesses now operating as Astec Mobile Machinery GmbH in 2011. We may acquire additional businesses in the future. We may be unable to achieve the benefits expected to be realized from our acquisitions. In addition, we may incur additional costs and our management's attention may be diverted because of unforeseen expenses, difficulties, complications, delays and other risks inherent in acquiring businesses, including the following:

- we may have difficulty integrating the financial and administrative functions of acquired businesses;
- acquisitions may divert management's attention from our existing operations;
- fluctuations in exchange rates and a weakening of the dollar may impact the competitiveness of acquired businesses;
- we may have difficulty in competing successfully for available acquisition candidates, completing future acquisitions or accurately estimating the financial effect of any businesses we acquire;
- we may have delays in realizing the benefits of our strategies for an acquired business;
- we may not be able to retain key employees necessary to continue the operations of the acquired business;
- acquisition costs may deplete significant cash amounts or may decrease our operating income;
- we may choose to acquire a company that is less profitable or has lower profit margins than our company;
- future acquired companies may have unknown liabilities that could require us to spend significant amounts of additional capital; and
- we may incur domestic or international economic declines that impact our acquired companies.

Competition could reduce revenue from our products and services and cause us to lose market share.

We currently face strong competition in product performance, price and service. Some of our domestic and international competitors have greater financial, product development and marketing resources than the Company has. If competition in our industry intensifies or if our current competitors enhance their products or lower their prices for competing products, we may lose sales or be required to lower the prices we charge for our products. This may reduce revenue from our products and services, lower our gross margins or cause us to lose market share.

Our success depends on key members of our management and other employees.

Dr. J. Don Brock, our Chairman and Chief Executive Officer, is of significant importance to our business and operations. The loss of his services may adversely affect our business. In addition, our ability to attract and retain qualified engineers, skilled manufacturing personnel and other professionals, either through direct hiring or acquisition of other businesses employing such professionals, will also be an important factor in determining our future success.

Difficulties in managing and expanding in international markets could divert management's attention from our existing operations.

In 2012, international sales represented approximately 39.3% of our total sales as compared to 41.3% in 2011. We plan to continue our growth efforts in international markets. In connection with any increase in international sales efforts, we will need to hire, train and retain qualified personnel in countries where language, cultural or regulatory barriers may exist. Any difficulties in expanding our international sales may divert management's attention from our existing operations. In addition, international revenues are subject to the following risks:

- fluctuating currency exchange rates, which can reduce the profitability of foreign sales;
- the burden of complying with a wide variety of foreign laws and regulations;
- dependence on foreign sales agents;
- political and economic instability of governments;
- the imposition of protective legislation such as import or export barriers; and
- fluctuating strengths or weakness of the dollar, which can impact net sales or the cost of purchased products.

We may be unsuccessful in complying with the financial ratio covenants or other provisions of our credit agreement.

As of December 31, 2012, we were in compliance with the financial covenants contained in our credit agreement with Wells Fargo Bank, N.A.. However, in the future we may be unable to comply with the financial covenants in our credit facility or to obtain waivers with respect to such financial covenants. If such violations occur, the Company's creditors could elect to pursue their contractual remedies under the credit facility, including requiring immediate repayment in full of all amounts then outstanding. As of December 31, 2012, the Company had no outstanding borrowings but did have \$13,113,000 of letters of credit outstanding under the credit agreement. Additional amounts may be borrowed in the future. The Company's Osborn and Astec Australia subsidiaries have their own independent loan agreements in place.

Our quarterly operating results are likely to fluctuate, which may decrease our stock price.

Our quarterly revenues, expenses and operating results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. As a result, our operating results may fall below the expectations of securities analysts and investors in some quarters, which could result in a decrease in the market price of our common stock. The reasons our quarterly results may fluctuate include:

- general competitive and economic conditions, domestically and internationally;
- delays in, or uneven timing in, the delivery of customer orders;
- the seasonal trend in our industry;
- the introduction of new products by us or our competitors;
- product supply shortages; and
- reduced demand due to adverse weather conditions.

Period-to-period comparisons of such items should not be relied on as indications of future performance.

We may face product liability claims or other liabilities due to the nature of our business. If we are unable to obtain or maintain insurance or if our insurance does not cover liabilities, we may incur significant costs which could reduce our profitability.

We manufacture heavy machinery, which is used by our customers at excavation and construction sites and on high-traffic roads. Any defect in or improper operation of our equipment can result in personal injury and death, and damage to or destruction of property, any of which could cause product liability claims to be filed against us. The amount and scope of our insurance coverage may not be adequate to cover all losses or liabilities we may incur in the event of a product liability claim. We may not be able to maintain insurance of the types or at the levels we deem necessary or adequate or at rates we consider reasonable. Any liabilities not covered by insurance could reduce our profitability or have an adverse effect on our financial condition.

If we are unable to protect our proprietary technology from infringement or if our technology infringes technology owned by others, then the demand for our products may decrease or we may be forced to modify our products, which could increase our costs.

We hold numerous patents covering technology and applications related to many of our products and systems as well as numerous trademarks and trade names registered with the U.S. Patent and Trademark Office and in foreign countries. Our existing or future patents or trademarks may not adequately protect us against infringements, and pending patent or trademark applications may not result in issued patents or trademarks. Our patents, registered trademarks and patent applications, if any, may not be upheld if challenged, and competitors may develop similar or superior methods or products outside the protection of our patents. This could reduce demand for our products and materially decrease our revenues. If our products are deemed to infringe upon the patents or proprietary rights of others, we could be required to modify the design of our products, change the name of our products or obtain a license for the use of some of the technologies used in our products. We may be unable to do any of the foregoing in a timely manner, upon acceptable terms and conditions, or at all, and the failure to do so could cause us to incur additional costs or lose revenues.

If we become subject to increased governmental regulation, we may incur significant costs.

Our hot-mix asphalt plants contain air pollution control equipment and several of our other products contain engines that must comply with performance standards promulgated by the Environmental Protection Agency. These performance standards may increase in the future. Changes in these requirements could cause us to undertake costly measures to redesign or modify our equipment or otherwise adversely affect the manufacturing processes of our products. Such changes could have a material adverse effect on our operating results.

Also, due to the size and weight of some of the equipment that we manufacture, we often are required to comply with conflicting state regulations on the maximum weight transportable on highways and roads. In addition, some states regulate the operation of our component equipment, including asphalt mixing plants and soil remediation equipment, and most states regulate the accuracy of weights and measures, which affect some of the control systems we manufacture. We may incur material costs or liabilities in connection with the regulatory requirements applicable to our business.

As an innovative leader in the industries in which we operate, we occasionally undertake the engineering, design, manufacturing and construction of equipment systems that are new to the market. Estimating the cost of such innovative equipment can be difficult and could result in our realization of significantly reduced or negative margins on such projects.

In the past, we have experienced negative margins on certain large, specialized aggregate systems projects. These large contracts included both existing and innovative equipment designs, on-site construction and minimum production levels. Since it can be difficult to achieve the expected production results during the project design phase, field testing and redesign may be required during project installation, resulting in added cost. In addition, due to any number of unforeseen circumstances, which can include adverse weather conditions, projects can incur extended construction and testing delays which can cause significant cost overruns. We may not be able to sufficiently predict the extent of such unforeseen cost overruns and may experience significant losses on specialized projects. Additionally, the Company typically incurs substantial research and development costs each year and has historically received significant research and development tax credits due to these expenditures. While these tax credits have been approved through 2013, they may not be approved for future years.

Our Articles of Incorporation, Bylaws and Rights Agreement and Tennessee law may inhibit a takeover, which could delay or prevent a transaction in which shareholders might receive a premium over market price for their shares.

Our charter and bylaws and Tennessee law contain provisions that may delay, deter or inhibit a future acquisition or an attempt to obtain control of us. This could occur even if our shareholders are offered an attractive value for their shares or if a substantial number or even a majority of our shareholders believe the takeover is in their best interest. These provisions are intended to encourage any person interested in acquiring us or obtaining control of us to negotiate with and obtain the approval of our Board of Directors in connection with the transaction. Provisions that could delay, deter or inhibit a future acquisition or an attempt to obtain control of us include the following:

- having a staggered Board of Directors;
- requiring a two-thirds vote of the total number of shares issued and outstanding to remove directors other than for cause;
- requiring advance notice of actions proposed by shareholders for consideration at shareholder meetings;
- limiting the right of shareholders to call a special meeting of shareholders;
- requiring that all shareholders entitled to vote on an action provide written consent in order for shareholders to act without holding a shareholders' meeting; and
- being governed by the Tennessee Control Share Acquisition Act.

In addition, the rights of holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of our preferred stock that may be issued in the future and that may be senior to the rights of holders of our common stock. In December 2005, our Board of Directors approved an Amended and Restated Shareholder Protection Rights Agreement, which provides for one preferred stock purchase right in respect of each share of our common stock ("Rights Agreement"). These rights become exercisable upon the acquisition by a person or group of affiliated persons, other than an existing 15% shareholder, of 15% or more of our then-outstanding common stock by all persons. This Rights Agreement also could discourage bids for the shares of common stock at a premium and could have a material adverse effect on the market price of our shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The location, approximate square footage, acreage occupied and principal function and use by the Company's reporting segments of the properties owned or leased by the Company are set forth below:

Location	Approximate Square Footage	Approximate Acreage	Principal Function (Use by Segment)
Chattanooga, Tennessee	457,600	59	Offices, manufacturing and training center – Astec (Asphalt Group)
Chattanooga, Tennessee	-	53	Storage yard – Astec (Asphalt Group)
Rossville, Georgia	40,500	3	Manufacturing – Astec (Asphalt Group)
Prairie du Chien, WI	91,500	39	Manufacturing – Dillman division of Astec (Asphalt Group)
Chattanooga, Tennessee	109,700	15	Offices and manufacturing – Heatec (Asphalt Group)
Chattanooga, Tennessee	207,000	15	Offices, manufacturing and training center – Roadtec (Mobile Asphalt Paving Group)
Chattanooga, Tennessee	51,200	7	Manufacturing – Roadtec (Mobile Asphalt Paving Group)
Chattanooga, Tennessee	14,100	--	Leased Hanger and Offices – Astec Industries, Inc. (Other Business Units)
Chattanooga, Tennessee	10,000	2	Corporate offices – Astec Industries, Inc. (Other Business Units)
Mequon, Wisconsin	203,000	30	Offices and manufacturing – Telsmith (Aggregate and Mining Group)
Sterling, Illinois	60,000	8	Offices and manufacturing – AMS (Aggregate and Mining Group)
Orlando, Florida	9,000	--	Leased machine repair and service facility – Roadtec (Mobile Asphalt Paving Group)
Loudon, Tennessee	327,000	112	Offices and manufacturing – Astec Underground (Underground Group)

Location	Approximate Square Footage	Approximate Acreage	Principal Function (Use by Segment)
Eugene, Oregon	130,000	8	Offices and manufacturing – JCI (Aggregate and Mining Group)
Albuquerque, New Mexico	115,000	14	Offices and manufacturing – CEI (Asphalt Group) (partially leased to a third party)
Yankton, South Dakota	312,000	50	Offices and manufacturing – KPI (Aggregate and Mining Group)
Thornbury, Ontario, Canada	60,500	12	Offices and manufacturing – BTI (Aggregate and Mining Group)
Thornbury, Ontario Canada	7,000	--	Leased warehouse/parts sales office – BTI (Aggregate and Mining Group)
Walkerton, Ontario Canada	1,900	--	Engineering and sales office – BTI (Aggregate and Mining Group)
Riverside, California	12,500	--	Leased offices, sales, assembly and warehouse – BTI (Aggregate and Mining Group)
Solon, Ohio	8,900	--	Leased offices, sales, assembly and warehouse – BTI (Aggregate and Mining Group)
Tacoma, Washington	41,000	8	Offices and manufacturing – Carlson (Mobile Asphalt Paving Group)
Tacoma, Washington	4,400	1	R&D/Services Offices-Carlson (Mobile Asphalt Paving Group)
Cape Town, South Africa	4,600	--	Leased sales office and warehouse – Osborn (Aggregate and Mining Group)
Durban, South Africa	3,800	--	Leased sales office and warehouse – Osborn (Aggregate and Mining Group)
Witbank, South Africa	1,400	--	Leased sales office and warehouse – Osborn (Aggregate and Mining Group)
Tullamarine, Australia	6,000	--	Leased office, warehouse and storage yard-Astec Australia Pty Ltd (Other Business Unit)

Location	Approximate Square Footage	Approximate Acreage	Principal Function (Use by Segment)
Johannesburg, South Africa	229,000	18	Offices and manufacturing – Osborn (Aggregate and Mining Group)
Eugene, Oregon	130,000	7	Offices and manufacturing – Peterson Pacific Corp. (Other Business Units)
Enid, Oklahoma	350,000	42	Offices and manufacturing – GEFCO, Inc. (Underground Group)
West Columbia, South Carolina	4,000	--	Leased distribution center – Peterson Pacific Corp. (Other Business Units)
Acacia Ridge, Australia	31,000	5	Offices, warehousing, service, light fabrication and storage yard – Astec Australia Pty Ltd (Other Business Units)
Welshpool, Australia	7,000	--	Leased office, warehouse and storage yard - Astec Australia Pty Ltd (Other Business Unit)
Hamel, Germany	140,652	3	Offices and manufacturing – Asphalt Mobile Machinery GmbH (Mobile Asphalt paving Group)
Vespasiano-MG Brazil	2,253	--	Leased sales/administrative offices-Astec Brazil (Aggregate and Mining Group)

The properties above are owned by the Company unless they are indicated as being leased.

Management believes each of the Company's facilities provides office or manufacturing space suitable for its current needs. Additionally, management considers the terms under which it leases facilities to be reasonable.

Item 3. Legal Proceedings

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

During 2004 the Company received notice from the Environmental Protection Agency that it may be responsible for a portion of the costs incurred in connection with an environmental cleanup in Illinois. The discharge of hazardous materials and associated cleanup relate to activities occurring prior to the Company's acquisition of Barber Greene in 1986. The Company believes that over 300 other parties have received similar notice. At this time, the Company is unable to predict whether the EPA will seek to hold the Company liable for a portion of the cleanup costs or the amount of any such liability.

Item 4. Mine Safety Disclosures

None.

Executive Officers

The name, title, ages and business experience of the executive officers of the Company are listed below.

J. Don Brock, Ph.D., served as President of the Company since its incorporation in 1972 until August 2012 and assumed the additional position of Chairman of the Board in 1975. Coincident with the promotion of W. Norman Smith to President in August 2012, Dr. Brock resigned from his position as President; however he continues to serve as the Company's Chief Executive Officer. He was the Treasurer of the Company from 1972 until 1994. From 1969 to 1972, Dr. Brock was President of the Asphalt Division of CMI Corporation. He earned his Ph.D. degree in mechanical engineering from the Georgia Institute of Technology. Dr. Brock is the father of Benjamin G. Brock, Group VP-Asphalt and President of Astec, Inc., and Dr. Brock and Thomas R. Campbell, Group Vice President - Mobile Asphalt Paving and Underground, are first cousins. He is 74.

David C. Silvious, a Certified Public Accountant, was appointed Vice President, Chief Financial Officer and Treasurer of the Company in August 2011. He previously served as Corporate Controller of the Company since 2005 and as Corporate Financial Analyst from 1999 to 2005. Mr. Silvious also serves as Treasurer of each of the Company's U.S. operating subsidiaries and Vice President of Astec Insurance Company. Mr. Silvious earned his undergraduate degree in accounting from Tennessee Technological University and his Masters of Business Administration from the University of Tennessee at Chattanooga. He is 45.

W. Norman Smith was appointed President and Chief Operating Officer of the Company in August 2012 after having served as Group Vice President-Asphalt since 1998. Previously, he served as President of Astec, Inc. from 1994 until October 2006. He formerly served as President of Heatec, Inc. from 1977 to 1994. From 1972 to 1977, Mr. Smith was a Regional Sales Manager with the Company. From 1969 to 1972, Mr. Smith was an engineer with the Asphalt Division of CMI Corporation. Mr. Smith has also served as a director of the Company since 1982. He is 73.

Thomas R. Campbell has served as Group Vice President-Mobile Asphalt Paving & Underground since 2001 and also assumed the role of Managing Director of Astec Mobile Machinery GmbH upon its inception in 2011. He also currently serves as President of Astec Underground. He served as President of Roadtec, Inc. from 1988 to 2004. He has served as President of Carlson Paving Products and American Augers since 2001 to 2006. He served as President of Astec Underground, Inc. from 2001 to 2005. From 1981 to 1988, he served as Operations Manager of Roadtec. Mr. Campbell and J. Don Brock, Chief Executive Officer of the Company, are first cousins. He is 63.

Richard A. Patek has served as Group Vice President-Aggregate & Mining Group since 2008 and as President of TelSmith, Inc. from May 2001 until February 13, 2013. He served as President of Kolberg-Pioneer, Inc. from 1997 until 2001. From 1995 to 1997, he served as Director of Materials of TelSmith, Inc. From 1992 to 1995, Mr. Patek was Director of Materials and Manufacturing of the former Milwaukee plant location. From 1978 to 1992, he held various manufacturing management positions at TelSmith. Mr. Patek also serves as a Corporate Board Member for the Milwaukee School of Engineering. He was elected 1st Chair to Associated Equipment Manufacturers (AEM) for calendar year 2013. Mr. Patek is a graduate of the Milwaukee School of Engineering. He is 56.

Joseph P. Vig has served as Group Vice President of the AggRecon Group since 2008 and as President of Kolberg-Pioneer, Inc., since 2001. From 1994 until 2001, he served as Engineering Manager of Kolberg-Pioneer, Inc. From 1978 to 1993 he was Director of Engineering with Morgen Mfg. Co., and then Engineering Manager of Essick-Mayco in 1993-94. Mr. Vig has a B.S. degree in civil engineering from the South Dakota School of Mines and Technology and is registered as a Professional Engineer. He is 63.

Stephen C. Anderson was appointed Vice President of Administration in August 2011, Secretary of the Company in January 2007 and Director of Investor Relations in January 2003. Mr. Anderson also serves as the Company's compliance officer and manages the corporate information technology and aviation departments. He has also been President of Astec Insurance Company since January 2007. He was Vice President of Astec Financial Services, Inc. from 1999 to 2002. Prior to this Mr. Anderson spent a combined fourteen years in Commercial Banking with AmSouth and SunTrust Banks. He has a B.S. degree in Business Management and a MBA from the University of Tennessee at Chattanooga and is a graduate of the Stonier Graduate School of Banking. He is 49.

Robin A. Leffew was appointed Corporate Controller in August 2011 and also serves as Secretary of Astec Insurance Company. She previously served as the Company's Director of Internal Audit since 2005 and Controller of Astec, Inc. from 1990 to 2005. Prior to 1990, she served as Corporate Financial Analyst for the Company since 1987. Mrs. Leffew earned her degree in Finance from Tennessee Technological University. She is 51.

Richard J. Dorris has served as Group Vice President-Energy since August 2012 and as President of Heatec, Inc. since 2004. From 1999 to 2004 he held the positions of National Accounts Manager, Project Manager and Director of Projects for Astec, Inc. Prior to joining Astec, Inc. he was President of Esstee Manufacturing Company from 1990 to 1999 and was Sales Engineer from 1984 to 1990. Mr. Dorris has a B.S. degree in mechanical engineering from the University of Tennessee. He is 52.

Frank D. Cargould was appointed President of Breaker Technology Ltd and Breaker Technology, Inc. in 1999. The Breaker Technology companies were formed in 1999 when the Company purchased substantially all of the assets of Teledyne Specialty Equipment's Construction and Mining business unit from Allegheny Teledyne Inc. From 1994 to 1999, he was Director of Sales - East for Teledyne CM Products, Inc. He is 70.

Jeffery J. Elliott was appointed President of Johnson Crushers, Inc. in 2001. From 1999 to 2001, he served as Senior Vice President for Cedarapids, Inc., (a Terex company), and from 1996 to 1999, he served as Vice President of the Crushing and Screening Group. From 1978 to 1996, he held various domestic and international sales and marketing positions with Cedarapids, Inc. He is 59.

Timothy Gonigam was appointed President of Astec Mobile Screens, Inc., in 2000. From 1995 to 2000, Mr. Gonigam held the position of Sales Manager of Astec Mobile Screens, Inc. He is 50.

Tom Kruger was appointed Managing Director of Osborn Engineered Products SA (Pty) Ltd in 2005. For the previous five years, Mr. Kruger was employed as Operations Director of Macsteel Tube and Pipe (Pty) Ltd, a manufacturer of carbon steel tubing in Johannesburg, South Africa. He served as Sales and Marketing Director of Macsteel prior to becoming Operations Director. From 1993 to 1998, Mr. Kruger was employed by Barloworld Ltd as Operations Director and Regional Managing Director responsible for a trading organization in steel, tube and water conveyance systems. Prior to that, he held the position of Works Director. He is 55.

Jeffrey L. Richmond, Sr. was appointed President of Roadtec, Inc. in 2004. From 1996 until 2004, he held the positions of Sales Manager, Vice President of Sales and Marketing and Vice President/General Manager of Roadtec, Inc. He is 57.

Michael A. Bremmer was appointed President of CEI Enterprises, Inc. in 2006. From 2003 until 2006, he held the position of Vice President and General Manager of CEI Enterprises, Inc. From 2001 until 2003, he held the position of Director of Engineering of CEI Enterprises, Inc. He is 57.

Benjamin G. Brock has served as Group Vice President-Asphalt since August 2012 and as President of Astec, Inc. since 2006. From 2003 until 2006 he held the position of Vice President - Sales of Astec, Inc. and Vice President/General Manager of CEI Enterprises, Inc. from 1997 until 2002. Mr. Brock's career with Astec began as a salesman in 1993. Mr. Brock has a B.S. in Economics with a minor in Marketing from Clemson University. Mr. Brock is the son of J. Don Brock, Chief Executive Officer of the Company. He is 42.

Chris Colwell was appointed President of Carlson Paving Products in May 2011. Prior to joining Astec, Mr. Colwell held the position of Regional Operations Manager for Alta Equipment Company from 2010 to 2011. From 2008 to 2010 he served as Vice President-Asphalt Division for Wolverine Tractor and Equipment Company. From 1999 to 2008 Mr. Colwell served as President of Colwell Equipment Company Incorporated where he previously served in various positions since 1985 including General Manager, Director of Management Information Systems, Assistant Controller and Product Support Manager. Mr. Colwell is 47.

Aaron Harmon was appointed President of GEFCO, Inc. upon its acquisition by the Company in October 2011. He previously served as President of the GEFCO Division of Blue Tee Corp. since 2005. Mr. Harmon joined GEFCO in 1995 and has served in several capacities within the organization including V. P. of North American Sales and Operations Manager. Mr. Harmon holds a Bachelors of Science degree in Business Administration from Phillips University. Mr. Harmon is 40.

Matthew B. Haven was promoted to President of Telsmith, Inc. on February 13, 2013 and served as Executive Vice President and General Manager of Telsmith from January 2012 to February 2013 and as its Vice President from 2008 to 2011. Mr. Haven joined Telsmith in 1997 and served as Chief Engineer, Research and Development and Director of Engineering prior to his appointment as Vice President. Prior to joining Telsmith, Mr. Haven served as Chief Engineer, Product Design and Development of Cedarapids, Inc. Mr. Haven is a 1984 graduate of the University of Northern Iowa. He is 51.

Larry R. Cumming was appointed President of Peterson Pacific Corp. in 2007. He joined the company in 2003 and served as General Manager and Chief Executive Officer of Peterson, Inc. Prior to joining Peterson, he held senior management positions in North America and Europe with Timberjack and John Deere (Deere acquired Timberjack in 2000). Mr. Cumming also held prior positions with Timberjack as Vice President Engineering and Senior Vice President Sales and Marketing, Chief Operating Officer and Executive Vice President Product Supply. Mr. Cumming is a graduate mechanical engineer from Cornell University with additional senior management courses from INSEAD in France. He is a registered professional engineer in the Province of Ontario. Mr. Cumming is 64.

David H. Smale was appointed General Manager of Astec Australia Pty Ltd in 2008 upon the inception of the company's operations. He served as the General Manager of Allen's Asphalt from 2006 to 2008 and as their Operations Manager from 2004 to 2006. Mr. Smale has completed various business management courses including the Macquarie University Graduate School of Management and Bond University Senior Executive Development Program. Mr. Smale is 57.

PART II

Item 5. Market for Registrant's Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock is traded in the Nasdaq National Market under the symbol "ASTE." The Company paid a special, one-time cash dividend of \$1.00 per share on its Common Stock in the fourth quarter of 2012. The Company has never paid any other cash dividends.

The high and low sales prices of the Company's Common Stock as reported on the Nasdaq National Market for each quarter during the last two fiscal years are as follows:

2012	Price Per Share	
	High	Low
1st Quarter	\$ 40.68	\$ 32.60
2nd Quarter	\$ 37.12	\$ 26.48
3rd Quarter	\$ 34.10	\$ 27.01
4th Quarter	\$ 33.47	\$ 26.09

2011	Price Per Share	
	High	Low
1st Quarter	\$ 37.41	\$ 29.78
2nd Quarter	\$ 39.97	\$ 33.74
3rd Quarter	\$ 39.54	\$ 28.20
4th Quarter	\$ 35.68	\$ 26.53

As of February 15, 2013 there were approximately 300 record holders of the Company's Common Stock.

Item 6. Selected Financial Data

Selected financial data appears in Appendix "A" of this Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations appears in Appendix "A" of this Report.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information regarding the Company's market risk appears in Appendix "A" of this Report under the heading "Market Risk and Risk Management Policies."

Item 8. Financial Statements and Supplementary Data

Financial statements and supplementary financial information appear in Appendix "A" of this Report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of December 31, 2012, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting

Management's report appears in Appendix A of this Report.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fourth quarter of the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the Company's directors, director nominating process, audit committee and audit committee financial expert is included under the captions "Certain Information Concerning Nominees and Directors" and "Corporate Governance" in the Company's Proxy Statement to be delivered to the shareholders of the Company in connection with the Annual Meeting of Shareholders to be held on April 25, 2013, which is incorporated herein by reference. Information regarding compliance with Section 16(a) of the Exchange Act is also included under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2013 Proxy Statement, which is incorporated herein by reference. Information with respect to our executive officers is set forth in Part I of this Report under the caption "Executive Officers."

The Company's Board of Directors has approved a Code of Conduct and Ethics that applies to the Company's employees, directors and officers (including the Company's principal executive officer, principal financial officer and principal accounting officer). The Code of Conduct and Ethics is available on the Company's website at www.astecindustries.com/investors/.

Item 11. Executive Compensation

Information included under the captions "Compensation Discussion and Analysis", "Executive Compensation", "Director Compensation", "Corporate Governance—Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in the Company's 2013 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Equity Compensation Plan Information

The following table provides information as of December 31, 2012 regarding compensation plans under which the Company's equity securities are authorized for issuance.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, Rights and RSU's	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Shareholders ⁽¹⁾	330,358 ⁽²⁾	\$ 19.33 ⁽³⁾	667,267 ⁽⁴⁾
Equity Compensation Plans Not Approved by Shareholders ⁽⁵⁾	25,265 ⁽⁶⁾	\$ 15.40 ⁽⁷⁾	104,339 ⁽⁸⁾
Total	355,623		771,606

- (1) These plans consist of our 1998 Long-Term Incentive Plan, our 2006 Incentive Plan and our 2011 Incentive Plan.
- (2) Includes 17,862 Stock Options granted under our 1998 Long-Term Incentive Plan and 280,065 Restricted Stock Units granted under our 2006 Incentive Plan and 32,431 Restricted Stock Units granted under our 2011 Incentive Plan.
- (3) Weighted average exercise price of outstanding Stock Options; excludes Restricted Stock Units.
- (4) Represents shares available for issuance under our 2011 Incentive Plan.
- (5) This plan consists of our 1998 Non-Employee Director Stock Incentive Plan.
- (6) Includes 7,853 Stock Options and 17,412 Deferred Stock Units granted under our 1998 Non-Employee Director Stock Incentive Plan.
- (7) Weighted average exercise price of outstanding Stock Options; excludes Deferred Stock Units.
- (8) Represents shares available for issuance under our 1998 Non-Employee Director Stock Incentive Plan.

Equity Compensation Plans Not Approved by Shareholders

Our 1998 Non-Employee Directors Stock Incentive Plan provides that annual retainers payable to our non-employee directors will be paid in the form of cash, unless the director elects to receive the annual retainer in the form of common stock, deferred stock or stock options. If the director elects to receive Common Stock, whether on a current or deferred basis, the number of shares to be received is determined by dividing the dollar value of the annual retainer by the fair market value of the Common Stock on the date the retainer is payable. If the director elects to receive stock options, the number of options to be received is determined by dividing the dollar value of the annual retainer by the Black-Scholes value of an option on the date the retainer is payable.

Information included under the caption "Stock Ownership of Certain Beneficial Owners" in the Company's 2013 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information included under the captions "Corporate Governance—Independent Directors" and "Transactions with Related Persons" in the Company's 2013 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information included under the caption "Audit Matters" in the Company's 2013 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following financial statements and other information appear in Appendix "A" to this Report and are filed as a part hereof:

- Selected Consolidated Financial Data.
- Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Management's Report on Internal Control over Financial Reporting.
- Reports of Independent Registered Public Accounting Firm.
- Consolidated Balance Sheets at December 31, 2012 and 2011.
- Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010.
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010.
- Consolidated Statements of Equity for the Years Ended December 31, 2012, 2011 and 2010.
- Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules are not filed with this Report because the Schedules are either inapplicable or the required information is presented in the Financial Statements or Notes thereto.

(a)(3) The following Exhibits* are incorporated by reference into or are filed with this Report:

- 3.1 Amended and Restated Charter of the Company, adopted on April 28, 1986 and amended on September 7, 1988, May 31, 1989 and January 15, 1999 (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2011).
- 3.2 Amended and Restated Bylaws of the Company, adopted on March 14, 1990 and amended on July 29, 1993, July 26, 2007 and July 23, 2008 (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2011).
- 4.1 Amended and Restated Shareholder Protection Rights Agreement, dated as of December 22, 2005, by and between the Company and Mellon Investor Services LLC, as Rights Agent (incorporated by reference from the Company's Current Report on Form 8-K dated December 22, 2005).
- 10.1 Trust under Astec Industries, Inc. Supplemental Retirement Plan, dated January 1, 1996 (incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1995). *
- 10.2 Astec Industries, Inc. 1998 Long-Term Incentive Plan (incorporated by reference from Appendix A of the Company's Proxy Statement for the 1998 Annual Meeting of Shareholders). *
- 10.3 Astec Industries, Inc. Executive Officer Annual Bonus Equity Election Plan (incorporated by reference from Appendix B of the Company's Proxy Statement for the 1998 Annual Meeting of Shareholders). *
- 10.4 Astec Industries, Inc. 1998 Non-Employee Directors' Stock Incentive Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999). *
- 10.5 Amendment Number 1 to Astec Industries, Inc. 1998 Non-Employee Directors' Stock Incentive Plan, dated March 15, 2005 (incorporated by reference from the Company's Current Report on Form 8-K dated March 15, 2005). *

10.6	Amendment Number 2 to the Astec Industries, Inc. 1998 Non-Employee Directors Stock Incentive Plan, dated February 21, 2006 (incorporated by reference from the Company's Current Report on Form 8-K dated February 27, 2006).*
10.7	Amendment Number 3 to the Astec Industries, Inc. 1998 Non-Employee Directors Stock Incentive Plan (incorporated by reference from the Company's Annual Report on form 10-K for the year ended December 31, 2008).*
10.8	Astec Industries, Inc. 2006 Incentive Plan (incorporated by reference from Appendix A of the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders). *
10.9	Amendment Number 1 to Astec Industries, Inc. 2006 Incentive Plan (incorporated by reference from the Company's Annual Report on form 10-K for the year ended December 31, 2008).*
10.10	Stock Purchase Agreement by and among Astec Industries, Inc., Dillman Equipment, Inc. and the sellers named therein dated August 5, 2008 (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
10.11	Stock Purchase Agreement by and among Astec Industries, Inc., Double L Investments, Inc. and the sellers named therein dated August 5, 2008 (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
10.12	Astec Industries, Inc. Supplemental Executive Retirement Plan, as amended and restated through January 1, 2009 (incorporated by reference from the Company's Annual Report on form 10-K for the year ended December 31, 2008).*
10.13	Amendment One to the Amended and Restated Astec Industries, Inc. Supplemental Executive Retirement Plan effective October 21, 2010 (incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2010).*
10.14	Astec Industries, Inc. 2011 Incentive Plan (incorporated by reference from Appendix A of the Company's Proxy Statement for the 2011 Annual Meeting of Shareholders). *
10.15	Amendment to Appendix A of the Astec Industries Supplemental Executive Plan effective August 1, 2011 (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2011).*
10.16	Asset Purchase Agreement, dated August 4, 2011, between Astec Industries, Inc. and Blue Tee Corp. (incorporated by reference from the company's Quarterly Report on 10-Q for the period ended September 30, 2011).
10.17	Amendment to Appendix A of the Astec Industries Supplemental Executive Plan effective November 1, 2011 (incorporate by reference from the company's Annual Report on form 10-K for the year ended December 31, 2011).*
10.18	Amended and Restated Credit Agreement, dated as of April 12, 2012, between Astec Industries, Inc. and Certain of its Subsidiaries and Wells Fargo Bank, National Association (incorporated by reference from the company's Quarterly Report on Form 10-Q for the period ending March 31, 2012).
10.19	Stock Purchase Agreement, dated as of October 31, 2012, among Astec Industries, Inc., American Augers, Inc. and The Charles Machine Works, Inc.
10.20	Asset Purchase Agreement, dated as of October 31, 2012, among Astec Industries, Inc. and The Charles Machine Works, Inc.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.

31.1	Certification of Chief Executive Officer of Astec Industries, Inc. pursuant Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.
31.2	Certification of Chief Financial Officer of Astec Industries, Inc. pursuant Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer of Astec Industries, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
*	Management contract or compensatory plan or arrangement.
(b)	The Exhibits to this Report are listed under Item 15(a)(3) above.
(c)	The Financial Statement Schedules to this Report are listed under Item 15(a)(2) above.

The Exhibits are numbered in accordance with Item 601 of Regulation S-K. Inapplicable Exhibits are not included in the list.

APPENDIX "A"
to
ANNUAL REPORT ON FORM 10-K
ITEMS 6, 7, 7a, 8, 9a and 15(a)(1), (2)and (3),and 15(b) and 15(c)

INDEX TO FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES

ASTEC INDUSTRIES, INC.

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FINANCIAL INFORMATION

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

Consolidated Statement of Income Data	2012	2011	2010	2009	2008
Net sales	\$ 936,273	\$ 908,641	\$ 737,084	\$ 698,056	\$ 891,328
Gross profit ¹	206,939	210,492	174,585	146,877	211,397
Gross profit %	22.1%	23.2%	23.7%	21.0%	23.7%
Selling, general and administrative expenses ²	136,323	132,371	109,354	100,651	115,626
Goodwill and other intangible asset impairment charge ³	--	--	--	17,036	--
Research and development	20,520	20,764	15,987	16,257	16,908
Income from operations	50,096	57,357	49,244	12,933	78,863
Interest expense	339	190	339	532	850
Other income (expense), net ⁴	1,783	1,082	632	1,118	6,240
Net income from continuing operations	33,589	39,795	33,841	5,186	54,933
Income (loss) from discontinued operations, net of tax	3,401	225	(1,269)	(2,080)	8,363
Gain on sale of subsidiary, net of tax	3,378	--	--	--	--
Net income	40,368	40,020	32,572	3,106	63,296
Net income attributable to controlling interest	40,207	39,918	32,430	3,068	63,128
Earnings (loss) per common share*					
Net income attributable to controlling interest from continuing operations					
Basic	1.47	1.76	1.50	.23	2.46
Diluted	1.45	1.73	1.48	.23	2.43
Income (loss) from discontinued operations					
Basic	.30	.01	(.06)	(.09)	.38
Diluted	.29	.01	(.06)	(.09)	.37
Net income attributable to controlling interest					
Basic	1.77	1.77	1.44	0.14	2.83
Diluted	1.74	1.74	1.42	0.14	2.80
Consolidated Balance Sheet Data					
Working capital	\$ 355,497	\$ 331,532	\$ 317,395	\$ 278,058	\$ 251,263
Total assets	724,565	716,883	649,639	590,901	612,812
Total short-term debt	--	--	--	--	3,427
Long-term debt, less current maturities	--	--	--	--	--
Total equity	547,998	529,183	492,806	452,260	440,033
Cash dividends declared per common share*	1.00	--	--	--	--
Book value per diluted common share at year-end*	23.70	23.00	21.56	19.89	19.45

¹ 2011 Gross profit includes charges of \$2,162,000 related to sale of utility product line assets in the Underground Group.

² 2011 Selling, general and administrative expenses include an impairment charge of \$2,304,000 related to aviation equipment classified as held for sale during 2011.

³ 2009 includes impairment charges, primarily goodwill, of \$17,036,000, or \$15,022,000 after tax.

⁴ During 2008, the Company sold certain equity securities for a pre-tax gain of \$6,195,000.

SUPPLEMENTARY FINANCIAL DATA
(in thousands, except as noted*)

Quarterly Financial Highlights
(Unaudited)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2012 Net sales	\$ 251,967	\$ 238,275	\$ 218,391	\$ 227,640
Gross profit	58,597	53,061	47,215	48,066
Net income from continuing operations	12,024	9,581	6,582	5,402
Income from discontinued operations	234	848	318	5,379
Net income	12,258	10,429	6,900	10,781
Net income attributable to controlling interest	12,245	10,366	6,852	10,744
Earnings per common share*				
Net income attributable to controlling interest from continuing operations:				
Basic	0.53	0.41	0.29	0.24
Diluted	0.52	0.41	0.29	0.23
Income from discontinued operations:				
Basic	0.01	0.04	0.01	0.24
Diluted	0.01	0.04	0.01	0.23
Net income attributable to controlling interest:				
Basic	0.54	0.46	0.30	0.47
Diluted	0.53	0.45	0.30	0.47
2011 ¹ Net sales	\$ 224,389	\$ 231,052	\$ 199,907	\$ 253,293
Gross profit	54,641	58,476	43,326	54,049 ³
Net income from continuing operations	11,409	13,187	6,849	8,349
Income (loss) from discontinued operations	(1,251)	918	915	(357)
Net income	10,158	14,105 ²	7,764	7,992 ²
Net income attributable to controlling interest	10,144	14,086 ²	7,723	7,964
Earnings (loss) per common share*				
Net income attributable to controlling interest from continuing operations:				
Basic	0.51	0.58	0.30	0.37
Diluted	0.50	0.57	0.30	0.36
Income (loss) from discontinued operations:				
Basic	(0.06)	0.04	0.04	(0.02)
Diluted	(0.05)	0.04	0.04	(0.02)
Net income attributable to controlling interest:				
Basic	0.45	0.62	0.34	0.35
Diluted	0.44	0.61	0.34	0.35
Common Stock Price*				
2012 High	\$ 40.68	\$ 37.12	\$ 34.10	\$ 33.47
2012 Low	32.60	26.48	27.01	26.09
2011 High	\$ 37.41	\$ 39.97	\$ 39.54	\$ 35.68
2010 Low	29.78	33.74	28.20	26.53

¹ The Company sold American Augers, Inc. on November 30, 2012. The results of operations and the gain on the sale of American Augers are presented as discontinued operations for all periods presented. As a result, the quarterly financial data varies from the amounts previously reported on the Form 10-Qs filed for such quarters. See Note 21, Discontinued Operations, for additional information regarding the sale of American Augers.

² Impairment charges of \$2,170,000 in the second quarter of 2011 and \$134,000 in the fourth quarter of 2011 were included in selling and general administrative expense related to aviation equipment classified as available for sale.

³ Gross profit in the fourth quarter of 2011 includes charges of \$2,162,000 related to sale of the utility product line in the Underground Group.

The Company's common stock is traded in the Nasdaq National Market under the symbol ASTE. Prices shown are the high and low bid prices as announced by the Nasdaq National Market. The Company paid a special one-time dividend of \$1.00 per share on its common stock in 2012. As determined by the proxy search on the record date, the number of holders of record is approximately 300.

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

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements. For additional information regarding forward-looking statements, see "Forward-looking Statements" on page A-21.

Overview

Astec Industries, Inc. (the "Company") is a leading manufacturer and seller of equipment for road building, aggregate processing, geothermal, water and oil and gas drilling and wood processing. The Company's businesses:

- design, engineer, manufacture and market equipment that is used in each phase of road building, including quarrying and crushing the aggregate to producing asphalt or concrete, recycling old asphalt or concrete and applying the asphalt;
- design, engineer, manufacture and market additional equipment and components, including geothermal drilling, oil and natural gas drilling, industrial heat transfer, wood chipping and grinding, wood pellet processing; and
- manufacture and sell replacement parts for equipment in each of its product lines.

The Company has 15 manufacturing companies, 14 of which fall within four reportable operating segments, which include the Asphalt Group, the Aggregate and Mining Group, the Mobile Asphalt Paving Group and the Underground Group. The business units in the Asphalt Group design, manufacture and market a complete line of asphalt plants and related components, heating and heat transfer processing equipment and storage tanks for the asphalt paving and other unrelated industries including energy production, concrete mixing plants and wood pellet processing equipment. The business units in the Aggregate and Mining Group design, manufacture and market equipment for the aggregate, metallic mining and recycling industries. The business units in the Mobile Asphalt Paving Group design, manufacture and market asphalt pavers, material transfer vehicles, milling machines, stabilizers and screeds. The business units in the Underground Group design, manufacture and market portable drilling rigs and related equipment for the water well, environmental, groundwater monitoring, construction, geothermal, mining and shallow oil and gas exploration and production industries. The Company also has one other category that contains the business units that do not meet the requirements for separate disclosure as an operating segment. The business units in the Other category include Peterson Pacific Corp. ("Peterson"), Astec Australia Pty Ltd ("Astec Australia"), Astec Insurance Company ("Astec Insurance" or "the captive") and Astec Industries, Inc., the parent company. Peterson designs, manufactures and markets whole-tree pulpwood chippers, horizontal grinders and blower trucks. Astec Australia markets and installs equipment, services and provides parts for many of the products produced by the Company's manufacturing companies. Astec Insurance is a captive insurance company.

The Company's financial performance is affected by a number of factors, including the cyclical nature and varying conditions of the markets it serves. Demand in these markets fluctuates in response to overall economic conditions and is particularly sensitive to the amount of public sector spending on infrastructure development, privately funded infrastructure development, changes in the price of crude oil, which affects the cost of fuel and liquid asphalt, and changes in the price of steel.

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

SAFETEA-LU funding expired on September 30, 2009 and federal transportation funding operated on short-term appropriations through March 17, 2010. On March 18, 2010, President Obama signed into law the Hiring Incentives to Restore Employment (HIRE) Act. This law extended authorization of the surface transportation programs previously funded under SAFETEA-LU through December 31, 2010 at 2009 levels. In addition, the HIRE Act authorized a one-time transfer of \$19.5 billion from the general fund to the highway trust fund related to previously foregone interest payments. It also shifted the cost of fuel tax exemptions for state and local governments from the highway trust fund to the general fund, which is estimated to generate an anticipated \$1.5 billion annually, and allows the highway trust fund to retain interest earned on future unexpended balances. The U.S. Congress funded federal transportation expenditures for the fiscal year ending September 30, 2011 at the 2010 level of \$41.1 billion, and it approved short-term funding of federal transportation expenditures for the six-month period ending on March 31, 2012 at the same levels.

In July 2012, President Obama signed into law the "Moving Ahead for Progress in the 21st Century Act" ("Map-21"), which authorizes \$105 billion of federal spending on highway and public transportation programs through fiscal year 2014. Map-21 is the first long-term highway legislation enacted since 2005 and continues federal highway and transit funding at 2012 levels with modest increases for inflation. Although the Company believes Map-21 will help stabilize the federal highway program in the near term, the Company believes a longer multi-year highway program would have the greatest positive impact on the road construction industry and allow its customers to plan and execute longer-term projects. The level of future federal highway construction is uncertain and any future funding may be at lower levels than in the past.

Several other countries have implemented infrastructure spending programs to stimulate their economies. The Company believes these spending programs have had a positive impact on its financial performance; however, the magnitude of that impact cannot be determined.

The public sector spending described above is needed to fund road, bridge and mass transit improvements. The Company believes that increased funding is unquestionably needed to restore the nation's highways to a quality level required for safety, fuel efficiency and mitigation of congestion. In the Company's opinion, amounts needed for such improvements are significantly greater than amounts approved to date, and funding mechanisms such as the federal usage fee per gallon of gasoline, which has not been increased in 20 years, would likely need to be increased along with other measures to generate the funds needed.

In addition to public sector funding, the economies in the markets the Company serves, the price of oil and its impact on customers' purchasing decisions and the price of steel may each affect the Company's financial performance. Economic downturns generally result in decreased purchasing by the Company's customers, which, in turn, causes reductions in sales and increased pricing pressure on the Company's products. Rising interest rates also typically negatively impact customers' attitudes toward purchasing equipment. The Federal Reserve has maintained historically low interest rates in response to the current economic downturn; however interest rates may increase in 2013.

Significant portions of the Company's revenues relate to the sale of equipment involved in the production, handling, recycling or installation of asphalt mix. Liquid asphalt is a by-product of oil production. An increase in the price of oil increases the cost of asphalt, which is likely to decrease demand for asphalt and therefore decrease demand for certain Company products. While increasing oil prices may have a negative financial impact on many of the Company's customers, the Company's equipment can use a significant amount of recycled asphalt pavement, thereby mitigating the effect of increased oil prices on the final cost of asphalt for the customer. The Company continues to develop products and initiatives to reduce the amount of oil and related products required to produce asphalt mix. Oil price volatility makes it difficult to predict the costs of oil-based products used in road construction such as liquid asphalt and gasoline. The Company's customers appear to be adapting their prices in response to the fluctuating oil prices, and the fluctuations did not appear to significantly impair equipment purchases in 2012. The Company expects oil prices to continue to fluctuate in 2013. Minor fluctuations in oil prices should not have a significant impact on customers' buying decisions. However, political uncertainty in oil producing countries, interruptions in oil production due to disasters, whether natural or man-made, or other economic factors could significantly impact oil prices which could negatively impact demand for the Company's products.

Contrary to the negative impact of higher oil prices on many of the Company's products as discussed above, sales of several of the Company's products, including products manufactured by the Underground Group, which are used to drill for oil and natural gas, would benefit from higher oil and natural gas prices, to the extent that such higher prices lead to further development of oil and natural gas production. The Company believes further development of domestic oil and natural gas production capabilities is needed and would positively impact the domestic economy and the Company's business.

Steel is a major component in the Company's equipment. Moderate steel price increases occurred during the fourth quarter of 2012. Steel demand appears relatively weak for the first quarter of 2013 with short mill lead times for most products. Management expects demand to strengthen ahead of the second quarter, and as a result of this trend, expects steel prices to increase moderately as mill lead times return to more seasonably normal levels. It is uncertain, however, if these trends will continue throughout the remainder of 2013. The Company continues to utilize forward-looking contracts coupled with advanced steel purchases to minimize the impact of increased steel prices. The Company will continue to review the trends in steel prices in future months and establish future contract pricing accordingly.

In addition to the factors stated above, many of the Company's markets are highly competitive, and its products compete worldwide with a number of other manufacturers and dealers that produce and sell similar products. During 2010, 2011 and a portion of 2012 a weak dollar, combined with improving economic conditions in certain foreign economies, had a positive impact on the Company's international sales. The Company expects the dollar to remain weak in the near-term relative to most foreign currencies; however, increasing domestic interest rates or weakening economic conditions abroad could cause the dollar to strengthen, which could negatively impact the Company's international sales.

In the United States and internationally, the Company's equipment is marketed directly to customers as well as through dealers. During 2012, approximately 75% to 80% of equipment sold by the Company was sold directly to the end user. The Company expects this ratio to remain relatively consistent through 2013.

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

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

Results of Operations: 2012 vs. 2011

The following discussion and analysis refers to amounts as presented in the accompanying consolidated statements of income. The Company sold substantially all the assets and liabilities of American Augers, Inc. on November 30, 2012. The results of operations attributable to American Augers and the related gain on its sale (net of tax) are presented as discontinued operations and are excluded from all other categories on the consolidated statements of income. In our comparison between 2012 and 2011, statement of income amounts for 2011 have been restated to exclude the operating results of American Augers.

Net Sales
Net sales increased \$27,632,000 or 3.0%, from \$908,641,000 in 2011 to \$936,273,000 in 2012. Sales are generated primarily from new equipment purchases made by customers for use in construction for privately funded infrastructure and public sector spending on infrastructure as well as equipment for the aggregate, mining, quarrying and recycle markets and the oil and gas and geothermal industries. The overall increase in sales for 2012 compared to 2011 reflects the strengthening economic conditions in domestic markets.

Domestic sales for 2012 were \$572,522,000 or 61.1% of consolidated net sales compared to \$543,527,000 or 59.8% of consolidated net sales for 2011, an increase of \$28,995,000 or 5.3%. The overall increase in domestic sales for 2012 compared to 2011 reflects the strengthening economic conditions for the Company's products in the domestic market.

International sales for 2012 were \$363,751,000 or 38.9% of consolidated net sales compared to \$365,114,000 or 40.2% of consolidated net sales for 2011, a decrease of \$1,363,000 or 0.4%. International sales remained relatively flat but still strong as a percentage of 2012 total sales due to strong economic conditions in the international markets the Company serves as well as the continued efforts of the Company to grow its international business.

Parts sales as a percentage of consolidated net sales increased 210 basis points to 26.3% in 2012 from 24.2% in 2011. In dollars, parts sales increased 11.8% to \$245,851,000 in 2012 from \$219,963,000 in 2011.

Gross Profit

Consolidated gross profit as a percentage of sales decreased 110 basis points to 22.1% in 2012 from 23.2% in 2011. The decrease in gross margin is partially due to the costs associated with the redesign of certain of our products as a result of the switch to Tier 4 engines mandated by the federal government as well as increased production costs associated with new products recently introduced to the market along with underutilization of plant capacity at certain of our facilities. Sales price increases lagging behind raw material price increases on the aged backlog of equipment orders and competitive pricing pressures also contributed to the decrease in gross profit as a percent of sales.

Selling, General and Administrative Expense

Selling, general and administrative expenses for 2012 were \$136,323,000 or 14.6% of net sales, compared to \$132,371,000 or 14.6% of net sales for 2011, an increase of \$3,952,000 or 3.0%. The increase was primarily due to an increase in payroll and related expenses of \$6,638,000, an increase in travel expenses of \$1,501,000, and an increase in health insurance of \$4,125,000. These expenses were offset by a decrease in expenses related to the triennial Con-Expo Show which took place in 2011 of \$3,159,000, profit sharing expense of \$1,911,000, the write down of aviation assets held for sale of \$2,304,000 (2011 only) and stock based compensation expense of \$1,548,000.

Research and Development

Research and development expenses decreased \$244,000 or 1.2% to \$20,520,000 in 2012 from \$20,764,000 in 2011. During 2012 and 2011 the Company invested heavily in research and development across all segments for numerous new equipment offerings, including the continued development of a wood pellet processing plant.

Interest Expense

Interest expense in 2012 increased \$149,000, or 78.4%, to \$339,000 from \$190,000 in 2011. The increase in interest expense in 2012 compared to 2011 related primarily to the increase in bank fees related to the Company's new line of credit agreement with Wells Fargo.

Interest Income

Interest income increased \$262,000 or 29.7% to \$1,145,000 in 2012 from \$883,000 in 2011. The increase in interest income resulted from an increase in amounts invested in 2012 compared to 2011 and interest earned on notes receivable from customers.

Other Income (Expense), Net

Other income (expense), net was \$1,783,000 in 2012 compared to \$1,082,000 in 2011, an increase of \$701,000 or 64.8% due to increased licensing fee income.

Income Tax

Income tax expense for 2012 was \$22,892,000, compared to income tax expense of \$19,281,000 for 2011. The effective tax rates for 2012 and 2011 were 36.2% and 32.5%, respectively. The primary reason for the increase in the effective tax rate from 2011 to 2012 is the unavailability of the research and development tax credit for 2012. Tax legislation passed in early 2013 will allow the Company to obtain a tax credit in 2013 based upon amounts expensed for research and development in 2012 in addition to the research and development costs expensed in 2013.

Net Income Attributable To Controlling Interest

The Company had net income attributable to controlling interest of \$40,207,000 in 2012 compared to \$39,918,000 in 2011 for an increase of \$289,000, or 0.7%. Earnings per diluted share remained constant in 2012 and 2011 at \$1.74. Weighted average diluted shares outstanding for the years ended December 31, 2012 and 2011 were 23,051,000 and 22,984,000, respectively. The increase in shares outstanding is primarily due to the vesting of restricted stock units and the exercise of stock options by employees of the Company.

Backlog

The backlog of orders at December 31, 2012 was \$263,791,000 compared to \$268,618,000 (adjusted for discontinued operations) at December 31, 2011, a decrease of \$4,827,000, or 1.8%. The decrease in the backlog of orders was due to an increase in domestic backlog of \$11,578,000 or 8.0% offset by a decrease in international backlog of \$16,405,000 or 13.3%. The Asphalt Group backlog increased \$24,053,000 or 20.8% from 2011. The Asphalt Group increase was domestic order related and is due to an order for a wood pellet processing plant. The Aggregate and Mining Group backlog decreased \$10,139,000 or 10.3%. The decrease in backlog for the Aggregate and Mining Group occurred in both domestic and international orders. The Underground Group backlog decreased \$7,438,000 or 34.8% from 2011 due to the decreased demand for units for the oil and gas industry in the latter part of 2012. The Mobile Asphalt Paving Group backlog decreased \$1,884,000 or 30.6%. The Mobile Asphalt Paving Group typically operates with a smaller backlog than the other segments due to the nature of their products. The Company is unable to determine whether the decrease in backlogs was experienced by the industry as a whole.

Net Sales by Segment (in thousands)

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Asphalt Group	\$ 234,562	\$ 260,404	\$ (25,842)	(9.9%)
Aggregate and Mining Group	355,428	333,278	22,150	6.6%
Mobile Asphalt Paving Group	158,115	187,988	(29,873)	(15.9%)
Underground Group	82,802	37,683	45,119	119.7%
Other Group	105,366	89,288	16,078	18.0%

Asphalt Group: Sales in this group decreased to \$234,562,000 in 2012 compared to \$260,404,000 in 2011, a decrease of \$25,842,000 or 9.9%. Domestic sales for the Asphalt Group decreased 8.9% in 2012 compared to 2011 due primarily to delayed approval of a federal long-term highway funding bill, which impacted orders that typically require a long production lead time, in addition to state budgetary concerns. The federal highway funding was passed in July 2012 but was well after most states let their jobs for construction in 2012. International sales for the Asphalt Group decreased 12.4% in 2012 compared to 2011. The decrease in international sales occurred primarily in Europe, the Middle East, post-Soviet States and South America. Parts sales for the Asphalt Group remained flat in 2012 compared to 2011.

Aggregate and Mining Group: Sales in this group were \$355,428,000 in 2012 compared to \$333,278,000 in 2011, an increase of \$22,150,000 or 6.6%. Domestic sales for the Aggregate and Mining Group increased 16.2% in 2012 compared to 2011 primarily due to improving economic conditions and improved demand related to infrastructure, particularly in the oil and gas producing regions of the country. International sales for the Aggregate and Mining Group decreased 1.3% in 2012 compared to 2011. The decrease in international sales occurred primarily in South America, Africa, and the Middle East. Parts sales for the Aggregate and Mining Group increased 7.6% in 2012 compared to 2011.

Mobile Asphalt Paving Group: Sales in this group were \$158,115,000 in 2012 compared to \$187,988,000 in 2011, a decrease of \$29,873,000 or 15.9%. Domestic sales for the Mobile Asphalt Paving Group decreased 15.3% in 2012 over 2011. Domestic sales of equipment for this Group were negatively affected by the federal government mandated switch to Tier IV engines as well as increased competition from international manufacturers that had a longer transition time to implement the Tier IV engines on their imports to the U.S. market. The decrease in domestic sales for the Mobile Asphalt Paving Group is also due in part to the increase of available rental units in the market. International sales for the Mobile Asphalt Paving Group decreased 18.7% in 2012 compared to 2011. The decrease internationally occurred primarily in Canada, South America and Mexico. Parts sales for this group increased 4.5% in 2012.

Underground Group: Sales in this group were \$82,802,000 in 2012 compared to \$37,683,000 in 2011, an increase of \$45,119,000 or 119.7%. Domestic sales for the Underground Group increased 177.4% in 2012 compared to 2011. International sales for the Underground Group increased 33.1% in 2012 compared to 2011. The increase in international sales occurred in Asia, South America, and Australia. Parts sales for the Underground Group increased 148.5% in 2012. GEFCO, which was acquired by the Company in the fourth quarter of 2011, accounted for \$34,643,000 of the increase in the Underground Group's sales and positively impacted both domestic and international sales, including parts sales, of this Group.

Other Group: Sales for the Other Group were \$105,366,000 in 2012 compared to \$89,288,000 in 2011, an increase of \$16,078,000 or 18.0%. Domestic sales for the Other Group, which are generated by Peterson Pacific Corp., increased 13.3% in 2012 compared to 2011. International sales for the Other Group, which are generated primarily by Astec Australia, increased 20.6% in 2012 compared to 2011. Astec Australia functions as a dealer for the Company's other subsidiaries and has increased its focus to sell, install and service equipment for the asphalt, aggregate and mining, mobile asphalt and underground construction markets of Australia. Parts sales for the Other Group increased 4.2% in 2012.

Segment Profit (Loss) (in thousands)

	2012	2011	\$ Change	% Change
Asphalt Group	\$ 21,018	\$ 29,310	\$ (8,292)	(28.3%)
Aggregate and Mining Group	34,687	31,493	3,194	10.1%
Mobile Asphalt Paving Group	10,721	26,485	(15,764)	(59.5%)
Underground Group	(2,238)	(7,318)	5,080	69.4%
Other Group	(30,080)	(38,229)	8,149	21.3%

Asphalt Group: Profit for this group was \$21,018,000 for 2012 compared to \$29,310,000 for 2011, a decrease of \$8,292,000 or 28.3%. This group had a decrease of \$7,683,000 in gross profit compared to 2011 as a result of the \$25,842,000 decrease in sales.

Aggregate and Mining Group: Profit for this group was \$34,687,000 in 2012 compared to \$31,493,000 in 2011, an increase of \$3,194,000 or 10.1%. This group had an increase of \$7,165,000 in gross profit during 2012 as a result of the \$22,150,000 increase in sales. This gross profit increase was offset by increases of \$3,761,000 in selling, general and administrative expenses, including payroll related expenses, travel expense, sales commission expense, and research and development expenses.

Mobile Asphalt Paving Group: Profit for this group was \$10,721,000 in 2012 compared to profit of \$26,485,000 in 2011, a decrease of \$15,764,000 or 59.5%. This group had a decrease of \$15,235,000 in gross profit during 2012 as a result of the \$29,873,000 decrease in sales and also due to the costs associated with the redesign of certain products as a result of the switch to Tier 4 engines mandated by the federal government. This group had an increase in selling, general and administrative expenses of \$747,000, which was primarily attributed to payroll related expense, travel expense, sales commission expense and research and development expenses.

Underground Group: This group had a loss of \$2,238,000 in 2012 compared to a loss of \$7,318,000 in 2011 for an improvement of \$5,080,000 or 69.4%. This group had an increase of \$9,386,000 in gross profit during 2012 driven by the \$45,119,000 increase in sales. Selling, general and administrative expenses increased \$4,391,000 due primarily to increases in payroll related expenses, bad debt expense, exhibit expense and research and development expenses. These results included GEFECO, Inc. results for the entire year of 2012 compared to three months of 2011.

Other Group: The Other Group had a loss of \$30,080,000 in 2012 compared to a loss of \$38,229,000 in 2011, an improvement of \$8,149,000 or 21.3%. Gross profit for this group increased \$2,814,000 or 18.1% year over year due in part to \$16,078,000 in increased sales for this group. The results for this group were positively impacted by the decrease in selling, general and administrative expense of \$3,500,000 that resulted from decreases in profit sharing and stock based compensation expenses. In addition, the write down of aviation assets held for sale of \$2,304,000 only occurred in 2011. The profit in this group was also significantly impacted by U.S. federal income tax expense, which is recorded at the parent company. Income tax expense in this group increased \$1,639,000 in 2012 compared to 2011.

Results of Operations: 2011 vs. 2010

The Company sold substantially all the assets and liabilities of American Augers, Inc. on November 30, 2012. Amounts shown in the Consolidated Statement of Income for 2011 and 2010 have been restated to exclude the results of American Augers. The amounts discussed in this comparison of 2011 vs. 2010 have also been restated to exclude American Augers' results.

Net Sales
Net sales increased \$171,557,000 or 23.3%, from \$737,084,000 in 2010 to \$908,641,000 in 2011. Sales are generated primarily from new equipment purchases made by customers for use in construction for privately funded infrastructure and public sector spending on infrastructure. In February 2012, the Company sold the Underground Group's utility product line. Sales of equipment and parts in this product line totaled \$18,389,000 and \$16,148,000 in 2011 and 2010, respectively. The overall increase in sales for 2011 compared to 2010 reflects the strengthening economic conditions, in both foreign and domestic markets.

Domestic sales for 2011 were \$543,527,000 or 59.8% of consolidated net sales compared to \$462,167,000 or 62.7% of consolidated net sales for 2010, an increase of \$81,360,000 or 17.6%. The overall increase in domestic sales for 2011 compared to 2010 reflects the strengthening economic conditions for the Company's products in the domestic market.

International sales for 2011 were \$365,114,000 or 40.2% of consolidated net sales compared to \$274,917,000 or 37.3% of consolidated net sales for 2010, an increase of \$90,197,000 or 32.8%. The overall increase in international sales for 2011 compared to 2010 is due to strong economic conditions in the international markets the Company serves as well as the increased efforts of the Company to grow its international business.

Parts sales as a percentage of consolidated net sales decreased 100 basis points to 24.2% in 2011 from 25.2% in 2010. In dollars, parts sales increased 18.4% to \$219,963,000 in 2011 from \$185,848,000 in 2010.

Gross Profit

Consolidated gross profit as a percentage of sales decreased 50 basis points to 23.2% in 2011 from 23.7% in 2010. The decrease in gross margin is partially due to certain sales price increases lagging behind raw material price increases on the aged backlog of equipment orders and parts sales, which typically yield a higher gross margin, decreased as a percentage of total sales year over year, as described above. Gross profit was also negatively impacted by charges of \$2,162,000 related to the sale of the Underground Group's utility product line assets.

Selling, General and Administrative Expense

Selling, general and administrative expenses for 2011 were \$132,371,000 or 14.6% of net sales, compared to \$109,354,000 or 14.8% of net sales, for 2010, an increase of \$23,017,000 or 21.0%. The increase was primarily due to an increase in payroll and related expenses of \$8,412,000, an increase in travel expenses of \$1,099,000, an increase in sales commissions of \$2,723,000, expenses related to the triennial Con-Expo show of \$2,925,000, an increase in legal and professional expense of \$2,111,000 and the write down of aviation assets held for sale of \$2,304,000.

Research and Development

Research and development expenses increased \$4,777,000 or 29.9% to \$20,764,000 in 2011 from \$15,987,000 in 2010. During 2011 the Company invested heavily in research and development across all segments for numerous new equipment offerings including the development of a wood pellet processing plant.

Interest Expense

Interest expense in 2011 decreased \$149,000, or 44.0%, to \$190,000 from \$339,000 in 2010. The decrease in interest expense in 2011 compared to 2010 related primarily to the decrease in interest paid on state tax settlements incurred in 2011 over 2010 levels.

Interest Income

Interest income decreased \$73,000 or 7.6% to \$883,000 in 2011 from \$956,000 in 2010. The decrease in interest income resulted from a decrease in amounts invested in 2011 compared to 2010.

Other Income (Expense), Net

Other income (expense), net was \$1,082,000 in 2011 compared to \$632,000 in 2010, an increase of \$450,000 or 71.2% due to an increase in licensing fee income of \$219,000 in 2011 compared to 2010.

Income Tax

Income tax expense for 2011 was \$19,281,000, compared to income tax expense of \$16,131,000 for 2010. The effective tax rates for 2011 and 2010 were 32.5% and 33.1%, respectively. The primary reason for the decrease in the effective tax rate from 2010 to 2011 is the increased research and development tax credits and the qualified production activity deductions in 2011 compared to 2010.

Net Income Attributable To Controlling Interest

The Company had net income attributable to controlling interest of \$39,918,000 in 2011 compared to \$32,430,000 in 2010 for an increase of \$7,488,000, or 23.1%. Earnings per diluted share were \$1.74 in 2011 compared to \$1.42 in 2010, an increase of \$0.32 or 22.5%. Weighted average diluted shares outstanding for the years ended December 31, 2011 and 2010 were 22,984,000 and 22,830,000, respectively. The increase in shares outstanding is primarily due to the exercise of stock options by employees of the Company.

Backlog

The backlog of orders at December 31, 2011 was \$268,618,000 compared to \$231,268,000, adjusted for acquisitions, at December 31, 2010, an increase of \$37,350,000, or 16.2%. The increase in the backlog of orders was due to an increase in domestic backlog of \$34,535,000 or 31.3% and an increase in international backlog of \$2,815,000 or 2.3%. The increase in backlog occurred in each of the Company's segments except for the Mobile Asphalt Paving Group, which typically operates with a smaller backlog than the other segments due to the nature of their products. The Mobile Asphalt Paving Group's backlog returned to a more normal level at December 31, 2011, a decrease of \$8,960,000 or 59.3%, after an unusual increase in December 2010 due to temporary delays in fulfilling customer orders. The Asphalt Group backlog increased \$6,984,000 or 6% from 2010. The Asphalt Group increase was domestic order related and is due to an increase in component sales for retro-fit asphalt plant equipment and the receipt of a contract to supply asphalt plants to the US Army. The Aggregate and Mining Group increased \$16,304,000 or 20% with \$13,322,000 or 81.7% of the increase in domestic orders. The Company attributes the increase in the Aggregate and Mining Group's domestic backlog to customers replacing older equipment and stronger dealer stock orders due to strengthening economic conditions. The Underground Group backlog increased \$1,857,000 or 9.5% from 2010 and is attributed to domestic orders for equipment to service the oil and gas industry. The Company is unable to determine whether the increase in backlogs was experienced by the industry as a whole; however, the Company believes the increased backlog reflects the current economic conditions the industry is experiencing.

Net Sales by Segment (in thousands)

	2011	2010	\$ Change	% Change
Asphalt Group	\$ 260,404	\$ 226,419	\$ 33,985	15.0%
Aggregate and Mining Group	333,278	256,400	76,878	30.0%
Mobile Asphalt Paving Group	187,988	166,436	21,552	12.9%
Underground Group	37,683	25,854	11,829	45.8%
Other Group	89,288	61,975	27,313	44.1%

Asphalt Group: Sales in this group increased to \$260,404,000 in 2011 compared to \$226,419,000 in 2010, an increase of \$33,985,000 or 15.0%. Domestic sales for the Asphalt Group increased 9.8% in 2011 compared to 2010 primarily due to improving economic conditions. International sales for the Asphalt Group increased 30.2% in 2011 compared to 2010 resulting from increased efforts by the Company to grow its international business. The increase in international sales occurred primarily in Europe, Canada, India and South America. Parts sales for the Asphalt Group increased 13.2% in 2011.

Aggregate and Mining Group: Sales in this group were \$333,278,000 in 2011 compared to \$256,400,000 in 2010, an increase of \$76,878,000 or 30.0%. Domestic sales for the Aggregate and Mining Group increased 32.6% in 2011 compared to 2010 primarily due to improving economic conditions. International sales for the Aggregate and Mining Group increased 27.9% in 2011 compared to 2010. This increase in international sales reflect the increased efforts by the Company to grow its international business, improved economic conditions and significant weakness in the dollar compared to many of the markets the Company serves. The increase in international sales occurred primarily in South America, Africa, Asia, Europe and China. Parts sales for the Aggregate and Mining Group increased 18.2% in 2011 compared to 2010.

Mobile Asphalt Paving Group: Sales in this group were \$187,988,000 in 2011 compared to \$166,436,000 in 2010, an increase of \$21,552,000 or 12.9%. Domestic sales for the Mobile Asphalt Paving Group increased 14.5% in 2011 over 2010. The Company believes this increase was due to improved economic conditions and the impact of short term federal funding bills passed by Congress. International sales for the Mobile Asphalt Paving Group increased 6.6% in 2011 compared to 2010. International sales for this group increased due to increased efforts to market products internationally as well as a weak dollar. The increase internationally occurred primarily in Russia, the Middle East and South America. Parts sales for this group increased 17.3% in 2011.

Underground Group: Sales in this group were \$37,683,000 in 2011 compared to \$25,854,000 in 2010, an increase of \$11,829,000 or 45.8%. Domestic sales for the Underground Group increased 60.0% in 2011 compared to 2010. The primary reason for this increase is the acquisition of GEFCO which occurred in the fourth quarter of 2011 and accounted for \$10,886,000 of sales. International sales for the Underground Group increased 28.5% in 2011 compared to 2010. The increase in international sales occurred in Mexico, Canada, Australia and Africa. Parts sales for the Underground Group increased 45.5% in 2011.

Other Group: Sales for the Other Group were \$89,288,000 in 2011 compared to \$61,975,000 in 2010, an increase of \$27,313,000 or 44.1%. Domestic sales for the Other Group, which are generated by Peterson Pacific Corp., remained flat in 2011 compared to 2010 due to continuing weak domestic construction activities in the markets they serve. International sales for the Other Group, which are generated primarily by Astec Australia increased 91.0% in 2011 over 2010 and was primarily in the Australian market. Astec Australia functions as a dealer for the Company's other subsidiaries and has increased its focus to sell, install and service equipment for the asphalt, aggregate and mining, mobile asphalt and underground construction markets of Australia. Parts sales for the Other Group increased 23.4% in 2011.

Segment Profit (Loss) (in thousands)

	2011	2010	\$ Change	% Change
Asphalt Group	\$ 29,310	\$ 28,672	\$ 638	2.2%
Aggregate and Mining Group	31,493	16,578	14,915	90.0%
Mobile Asphalt Paving Group	26,485	23,234	3,251	14.0%
Underground Group	(7,318)	(6,382)	(936)	(14.7%)
Other Group	(38,229)	(27,579)	(10,650)	(38.6%)

Asphalt Group: Profit for this group was \$29,310,000 for 2011 compared to \$28,672,000 for 2010, an increase of \$638,000 or 2.2%. This group had an increase of \$5,088,000 in gross profit over 2010 which was driven by the \$33,985,000 increase in sales. Segment profits were negatively impacted by an increase in research and development expense \$2,467,000 for 2011 over 2010 as well as certain sales price increases lagging behind raw material price increases on the aged backlog of equipment orders.

Aggregate and Mining Group: Profit for this group was \$31,493,000 in 2011 compared to \$16,578,000 in 2010, an increase of \$14,915,000 or 90.0%. This group had an increase of \$22,673,000 in gross profit during 2011 which was driven by the \$76,878,000 increase in sales and increased efficiency in plant utilization in 2011, which improved operating margins by \$7,197,000. This gross profit increase was offset by increases in selling, general and administrative expenses and research and development expenses of \$9,413,000 including payroll related expenses, travel expense and sales commission expense.

Mobile Asphalt Paving Group: Profit for this group was \$26,485,000 in 2011 compared to profit of \$23,234,000 in 2010, an increase of \$3,251,000 or 14.0%. This group had an increase of \$5,382,000 in gross profit during 2011 driven by the \$21,552,000 increase in sales. Also positively affecting gross profit was increased plant utilization of \$2,040,000 during 2011 compared to 2010. This group had an increase in selling, general and administrative expenses of \$3,906,000 primarily driven by payroll related expenses, travel expense and sales commission expense.

Underground Group: This group had a loss of \$7,318,000 in 2011 compared to a loss of \$6,382,000 in 2010, a decrease of \$936,000 or 14.7%. This group had an increase of \$476,000 in gross profit during 2011 driven by the \$11,829,000 increase in sales. The gross profit for the Underground Group was negatively impacted by charges of \$2,162,000 related to the sale of the utility product line assets. Selling, general and administrative expenses increased \$426,000 due primarily to increases in payroll related expenses, exhibit expense and the acquisition of GEFCO in the fourth quarter of 2011.

Other Group: The Other Group had a loss of \$38,229,000 in 2011 compared to a loss of \$27,579,000 in 2010, a decrease of \$10,650,000 or 38.6%. Gross profit for this group increased \$2,288,000 or 17.3% year over year due in part to \$27,313,000 in increased sales for this group. The increased sales were offset by an increase in payroll and related expenses of \$1,937,000 and the write down of aviation assets held for sale of \$2,304,000. The profit in this group is also significantly impacted by U.S. federal income tax expense which is recorded at the parent company. Income tax expense in this group increased \$3,859,000 in 2011 compared to 2010.

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are its cash on hand, investments, borrowing capacity under a \$100,000,000 revolving credit facility and cash flows from operations. The Company had \$80,929,000 of cash available for operating purposes at December 31, 2012. In addition, the Company had no borrowings outstanding under its credit facility with Wells Fargo Bank, N.A. ("Wells Fargo") at any time during the year ended December 31, 2012. The Company had outstanding letters of credit of \$13,113,000 and borrowing availability of \$86,887,000 under the credit facility as of December 31, 2012.

During April 2007, the Company entered into an unsecured credit agreement with Wachovia Bank, National Association ("Wachovia") whereby Wachovia extended to the Company an unsecured line of credit of up to \$100,000,000 including a sub-limit for letters of credit of up to \$15,000,000. Wachovia has subsequently been acquired by Wells Fargo Bank, N.A. ("Wells Fargo") and therefore the credit agreement was transferred to Wells Fargo. The credit facility had an original term of three years with two one-year extensions available. The Company exercised the final extension in 2010 which extended the loan maturity date to May 2012. On April 12, 2012, the Company and certain of its subsidiaries entered into a new amended and restated credit agreement with Wells Fargo whereby Wells Fargo extended to the Company an unsecured line of credit of up to \$100,000,000, including a sub-limit for letters of credit of up to \$25,000,000. The new amended and restated credit agreement replaced the expiring \$100,000,000 credit facility between the Company and Wells Fargo. The new amended and restated agreement has a five-year term expiring in April 2017. Borrowings under the agreement are subject to an interest rate equal to the daily one-month LIBOR rate plus a 0.75% margin, which was equal to 0.96% at December 31, 2012. The unused facility fee is 0.175%. Interest only payments are due monthly. The new amended and restated credit agreement contains certain financial covenants, including provisions concerning required levels of annual net income, minimum tangible net worth and maximum allowed capital expenditures. The Company was in compliance with these covenants as of December 31, 2012.

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd ("Osborn"), has a credit facility of \$8,837,000 (ZAR 75,000,000) to finance short-term working capital needs, as well as to cover performance letters of credit, advance payment and retention guarantees. As of December 31, 2012, Osborn had no outstanding borrowings under the credit facility, but \$3,388,000 in performance, advance payment and retention guarantees were issued under the facility. The facility is unsecured. As of December 31, 2012, Osborn had available credit under the facility of \$5,449,000. The facility has an ongoing, indefinite term subject to periodic reviews by the bank. The interest rate is 0.25% below the South Africa prime rate, which was 8.5% at December 31, 2012.

The Company's Australian subsidiary, Astec Australia Pty Ltd ("Astec Australia"), has a credit facility to finance short-term working capital needs of \$104,000 (AUD 100,000) as well as a bank guarantee facility of \$1,350,000 (AUD 1,300,000) to cover letters of credit. Additional banking arrangements are in place to finance foreign exchange dealer limit orders of up to \$3,894,000 (AUD 3,750,000), secured by cash balances in the amount of \$779,000 (AUD 750,000) and a \$1,600,000 letter of credit issued by the parent Company. As of December 31, 2012, no amounts were outstanding under the credit facility, but \$1,209,000 of letters of credit were outstanding under the bank guarantee facility. The interest rate is the Australian adjusted Bank Business Rate plus a margin of 1.05%. The interest rate was 11.17% at December 31, 2012.

Cash Flows from Operating Activities (in thousands)

	2012	2011	Increase / Decrease
Net income	\$ 40,368	\$ 40,020	\$ 348
Adjustments:			
Depreciation and amortization	23,048	19,259	3,789
Provision for warranty	11,152	13,029	(1,877)
Asset impairment charges	--	2,724	(2,724)
Sale / purchase of trading securities, net	(146)	1,733	(1,879)
Gain on sale of subsidiary	(5,358)	--	(5,358)
Stock based compensation	1,285	2,800	(1,515)
Deferred income tax provision (benefits)	6,150	(1,982)	8,132
Other, net	511	1,101	(590)
Changes in working capital:			
(Increase) decrease in receivables	7,555	(24,554)	32,109
(Increase) decrease in inventories	(40,133)	(32,017)	(8,116)
(Increase) decrease in prepaid expenses	(1,728)	177	(1,905)
Increase (decrease) in accounts payable	(6,425)	9,002	(15,427)
Increase (decrease) in customer deposits	4,918	6,235	(1,317)
Increase (decrease) in accrued product warranties	(11,021)	(10,524)	(497)
Increase (decrease) in other accrued liabilities	298	4,983	(4,685)
Other, net	(1,841)	321	(2,162)
Net cash provided by operating activities	<u>\$ 28,633</u>	<u>\$ 32,307</u>	<u>\$ (3,674)</u>

Net cash provided by operating activities decreased \$3,674,000 in 2012 compared to 2011. The primary reasons for the decrease in operating cash flows are increases in cash used to fund increases in inventory of \$8,116,000 and prepaid expenses of \$1,905,000, the gain on the sale of subsidiary of \$5,358,000 and a use of cash relating to accounts payable of \$15,427,000. These negative cash changes were offset by increases in cash from accounts receivable of \$32,109,000 and deferred taxes of \$8,132,000. These changes in operating cash flows reflect increased sales and production activity during 2012 compared to 2011 as well as planned inventory purchases made to fulfill the Company's backlog.

Cash Flows from Investing Activities (in thousands)

	2012	2011	Increase / Decrease
Expenditures for property and equipment	\$ (26,018)	\$ (36,130)	\$ 10,112
Business acquisitions	--	(33,407)	33,407
Proceeds from sale of subsidiary	42,940	--	42,940
Other	375	760	(385)
Net cash provided (used) by investing activities	<u>\$ 17,297</u>	<u>\$ (68,777)</u>	<u>\$ 86,074</u>

Net cash used by investing activities in 2012 increased \$86,074,000 compared to 2011 due primarily to a decrease in cash used for capital expenditures of \$10,112,000, the use of cash in 2011 for business acquisitions of \$33,407,000 and proceeds from the sale of subsidiary of \$42,940,000 in 2012.

Cash Flows from Financing Activities (in thousands)

	2012	2011	Increase / Decrease
Payment of dividends	\$ (22,789)	\$ --	\$ (22,789)
Other, net	317	885	(568)
Net cash provided (used) by financing activities	<u>\$ (22,472)</u>	<u>\$ 885</u>	<u>\$ (23,357)</u>

Financing activities used cash of \$22,472,000 in 2012 while in 2011 financing activities provided cash of \$885,000 for a net change of \$23,357,000 due primarily to the payment of a special one-time \$1.00 per common share dividend in December 2012.

Capital expenditures for 2013, excluding those by the Company's Brazilian operations, are forecasted to total \$31,455,000. The Company expects to finance these expenditures using currently available cash balances, internally generated funds and available credit under the Company's new credit facility. Capital expenditures are generally for machinery, equipment and facilities used by the Company in the production of its various products. The Company plans to construct a manufacturing facility in Brazil in 2013 with an expected cost of \$20,000,000 and plans to fund the costs of the plant and equipment with borrowings from a local Brazilian bank. The Company believes that its current working capital, cash flows generated from future operations and available capacity under its credit facility will be sufficient to meet the Company's working capital and capital expenditure requirements through December 31, 2013.

The Company sold American Augers, Inc. on November 30, 2012. Cash flows from the operations of American Augers are reflected in the statements of cash flows through the date of sale. Cash flows from the operations of American Augers were not material during the periods presented, and the absence of cash flows related to American Augers is not expected to impact the Company's future liquidity or capital resources. See Note 21, Discontinued Operations, for additional information regarding the sale of American Augers.

Financial Condition

The Company's current assets increased to \$499,866,000 at December 31, 2012 from \$485,554,000 at December 31, 2011, an increase of \$14,312,000, or 2.9%. The increase is primarily attributable to increases in inventory of \$9,557,000 and cash of \$23,424,000, offset by a decrease in trade receivables of \$12,346,000 and deferred income tax asset of \$6,871,000.

The Company's current liabilities decreased to \$144,369,000 at December 31, 2012 from \$154,022,000 at December 31, 2011, a decrease of \$9,653,000. The decrease is primarily attributable to decreases in accounts payable of \$8,960,000, accrued payroll and related liabilities of \$2,307,000 and accrued product warranty of \$1,611,000.

Market Risk and Risk Management Policies

The Company is exposed to changes in interest rates, primarily from its revolving credit agreements. A hypothetical 100 basis point adverse move (increase) in interest rates would not have materially affected interest expense for the year ended December 31, 2012, since there were no amounts outstanding on the revolving credit agreements during the year. The Company does not hedge variable interest.

The Company is subject to foreign exchange risk at its foreign operations. Foreign operations represent 16.3% and 14.6% of total assets at December 31, 2012 and 2011, respectively, and 14.4% and 12.7% of total revenue for the years ended December 31, 2012 and 2011, respectively. Each period the balance sheets and related results of operations of the Company's foreign subsidiaries are translated from their functional foreign currency into U.S. dollars for reporting purposes. As the dollar strengthens against those foreign currencies, the foreign denominated net assets and operating results become less valuable in the Company's reporting currency. When the dollar weakens against those currencies, the foreign denominated net assets and operating results become more valuable in the Company's reporting currency. At each reporting date, the fluctuation in the value of the net assets and operating results due to foreign exchange rate changes is recorded as an adjustment to other comprehensive income in equity. The Company views its investments in foreign subsidiaries as long-term and does not hedge the net investments in foreign subsidiaries.

From time to time the Company's foreign subsidiaries enter into transactions not denominated in their functional currency. In these situations, the Company evaluates the need to hedge those transactions against foreign currency rate fluctuations. When the Company determines a need to hedge a transaction, the subsidiary enters into a foreign currency exchange contract. The Company does not apply hedge accounting to these contracts and, therefore, recognizes the fair value of these contracts in the consolidated balance sheets and the change in the fair value of the contracts in current earnings.

Due to the limited exposure to foreign exchange rate risk, a 10% fluctuation in the foreign exchange rates at December 31, 2012 or 2011 would not have a material impact on the Company's consolidated financial statements.

Contractual Obligations

Contractual obligations and the period in which payments are due as of December 31, 2012 are as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Operating lease obligations	\$ 2,488	\$ 1,302	\$ 1,000	\$ 185	\$ 1
Inventory purchase obligations	3,283	2,220	1,063	--	--
Total	\$ 5,771	\$ 3,522	\$ 2,063	\$ 185	\$ 1

The above table excludes our liability for unrecognized tax benefits, which totaled \$771,000 at December 31, 2012, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

In 2012, the Company made contributions of approximately \$755,000 to its pension plan, compared to \$483,000 in 2011. The Company estimates that it will contribute a total of \$544,000 to the pension plan during 2013. The Company's funding policy is to make the minimum annual contributions required by applicable regulations.

Contingencies

Management has reviewed all claims and lawsuits and has made adequate provision for any losses that can be reasonably estimated. Based upon currently available information and with the advice of counsel, management believes that the ultimate outcome of its current claims and legal proceedings, individually and in the aggregate, will not have a material adverse effect on the Company's financial position, cash flows or results of operations. However, claims and legal proceedings are subject to inherent uncertainties and rulings unfavorable to the Company could occur. If an unfavorable ruling were to occur, there exists the possibility of a material adverse effect on the Company's financial position, cash flows or results of operations.

Certain customers have financed purchases of the Company's products through arrangements in which the Company is contingently liable for customer debt aggregating \$2,091,000 and \$3,537,000 at December 31, 2012 and 2011, respectively. These obligations have average remaining terms of 1.6 years. The Company has recorded a liability of \$112,000 related to these guarantees at December 31, 2012.

The Company is contingently liable under letters of credit of approximately \$17,710,000, primarily for performance guarantees to customers, banks or insurance carriers.

Off-balance Sheet Arrangements

As of December 31, 2012 the Company does not have off-balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K.

Environmental Matters

During 2004, the Company received notice from the Environmental Protection Agency that it may be responsible for a portion of the costs incurred in connection with an environmental cleanup in Illinois. The discharge of hazardous materials and associated cleanup relate to activities occurring prior to the Company's acquisition of Barber-Greene in 1986. The Company believes that over 300 other parties have received similar notice. At this time, the Company cannot predict whether the EPA will seek to hold the Company liable for a portion of the cleanup costs or the amount of any such liability. The Company has not recorded a liability with respect to this matter because no estimate of the amount of any such liability can be made at this time.

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 reduce the carrying value of the inventory. In addition, certain items in inventory become obsolete over time, and the Company reduces the carrying value of these items to their net realizable value. These reductions are determined by the Company based on estimates, assumptions and judgments made from the information available at that time. The Company does not believe it is reasonably likely that the inventory values will materially change in the near future.

Self-Insurance Reserves: The Company insures the retention portion of workers' compensation claims and general liability claims by way of a captive insurance company, Astec Insurance Company. The objectives of Astec Insurance are to improve control over and reduce retained loss costs; to improve focus on risk reduction with development of a program structure which rewards proactive loss control; and to ensure active management participation in the defense and settlement process for claims.

For general liability claims, the captive is liable for the first \$1,000,000 per occurrence and \$2,500,000 per year in the aggregate. The Company carries general liability, excess liability and umbrella policies for claims in excess of those covered by the captive.

For workers' compensation claims, the captive is liable for the first \$350,000 per occurrence and \$3,000,000 per year in the aggregate. The Company utilizes a large national insurance company as third-party administrator for workers' compensation claims and carries insurance coverage for claims liabilities in excess of amounts covered by the captive.

The financial statements of the captive are consolidated into the financial statements of the Company. The short-term and long-term reserves for claims and probable claims related to general liability and workers' compensation under the captive are included in accrued loss reserves and other long-term liabilities, respectively, in the consolidated balance sheets depending on the expected timing of future payments. The undiscounted reserves are actuarially determined based on the Company's evaluation of the type and severity of individual claims and historical information, primarily its own claims experience, along with assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change in the future. However, the Company does not believe it is reasonably likely that the reserve level will materially change in the near future.

At all but one of the Company's domestic manufacturing subsidiaries, the Company is self-insured for health and prescription claims under its Group Health Insurance Plan. The Company carries reinsurance coverage to limit its exposure for individual health claims above certain limits. Third parties administer health claims and prescription medication claims. The Company maintains a reserve for the self-insured health plan which is included in accrued loss reserves on the Company's consolidated balance sheets. This reserve includes both unpaid claims and an estimate of claims incurred but not reported, based on historical claims and payment experience. Historically the reserves have been sufficient to provide for claims payments. Changes in actual claims experience, or payment patterns, could cause the reserve to change, but the Company does not believe it is reasonably likely that the reserve level will materially change in the near future.

The remaining U.S. subsidiary is covered under a fully insured group health plan. Employees of the Company's foreign subsidiaries are insured under health plans in accordance with their local governmental requirements. No reserves are necessary for these fully insured health plans.

Product Warranty Reserve: The Company accrues for the estimated cost of product warranties at the time revenue is recognized. Warranty obligations by product line or model are evaluated based on historical warranty claims experience. For machines, the Company's standard product warranty terms generally include post-sales support and repairs of products at no additional charge for periods ranging from three months to two years or up to a specified number of hours of operation. For parts from component suppliers, the Company relies on the original manufacturer's warranty that accompanies those parts. Generally, fabricated parts are not covered by specific warranty terms. Although failure of fabricated parts due to material or workmanship is rare, if it occurs, the Company's policy is to replace fabricated parts at no additional charge.

The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of component suppliers. Estimated warranty obligations are based upon warranty terms, product failure rates, repair costs and current period machine shipments. If actual product failure rates, repair costs, service delivery costs or post-sales support costs differ from estimates, revisions to the estimated warranty liability would be required. The Company does not believe it is reasonably likely that the warranty reserve will materially change in the near future.

Revenue Recognition: Revenue is generally recognized on sales at the point in time when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product has been delivered or services have been rendered and there is reasonable assurance of collection of the sales proceeds. The Company generally obtains purchase authorizations from its customers for a specified amount of product at a specified price with specified delivery terms. A significant 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. Most of the equipment sold by the Company is based on standard configurations, some of which are modified to meet customer needs or specifications. The Company provides customers with technical design and performance specifications and performs pre-shipment testing to ensure the equipment performs according to design specifications, regardless of whether the Company provides installation services in addition to selling the equipment.

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 risk of ownership and when collectability is reasonably assured. In addition, there must be a fixed schedule of delivery of the goods consistent with the customer's business practices, the Company must not have retained any specific performance obligations such that the earnings process is not complete and the goods must have been segregated from the Company's inventory prior to revenue recognition.

The Company has certain sales accounted for as multiple-element arrangements, whereby revenue attributable to the sale of a product is recognized when it is shipped, and the revenue attributable to services provided with respect to the product (such as installation services) is recognized when the service is performed. Consideration is determined using the fair value method and approximates the sales price of the product shipped or services performed. The Company evaluates sales with multiple deliverable elements (such as an agreement to deliver equipment and related installation services) to determine whether revenue related to individual elements should be recognized separately, or as a combined unit. In addition to the previously mentioned general revenue recognition criteria, the Company only recognizes revenue on individual delivered elements when there is objective and reliable evidence that the delivered element has a determinable value to the customer on a standalone basis and there is no right of return.

Goodwill and Other Intangible Assets: Intangible assets are classified into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization, and (3) goodwill. Intangible assets with definite lives are tested for impairment if conditions exist that indicate the carrying value may not be recoverable. Risk factors that may be considered include an economic downturn in the general economy, a geographic market or the commercial and residential construction industries, a change in the assessment of future operations as well as the cyclical nature of our industry and the customization of the equipment we sell, each of which may cause adverse fluctuations in operating results. Other risk factors considered would be an increase in the price or a decrease in the availability of oil that could reduce the demand for our products in addition to the significant fluctuations in the purchase price of raw materials that could have a negative impact on the cost of production and gross margins as well as others more fully described in the Risk Factors section of our Form 10-K. An impairment charge is recorded when the carrying value of the definite lived intangible asset is not recoverable by the cash flows generated from the use of the asset. Some of the inputs used in the impairment testing are highly subjective and are affected by changes in business factors and other conditions. Changes in any of the inputs could have an effect on future tests and result in impairment charges.

Intangible assets with indefinite lives and goodwill are not amortized. Intangible assets and goodwill are tested for impairment annually or more frequently if events or circumstances indicate that such intangible assets or goodwill might be impaired. See Note 1, Summary of Significant Accounting Policies, for a detailed description of testing performed by the Company to determine if the recorded value of intangible assets or goodwill has been impaired.

The useful lives of identifiable intangible assets are determined after considering the specific facts and circumstances related to each intangible asset. Factors considered when determining useful lives include the contractual term of any agreement, the history of the asset, the Company's long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, generally on a straight-line basis, over their useful lives, ranging from 5 to 15 years.

Stock-based Compensation: The Company currently has two types of stock-based compensation plans in effect for its employees and directors. The Company's stock option plans have been in effect for a number of years; however, no options have been granted under the plans since 2006. The Company's original five year stock incentive plan was put in place during 2006 for the years ended 2006 through 2011. The Company's 2011 Incentive Plan was approved by the shareholders in their annual meeting held in April 2011. This plan operates in similar fashion to the Company's 2006 Incentive Plan for each of the five years ending December 31, 2015. These plans are more fully described in Note 16, Shareholders' Equity, to the consolidated financial statements. Restricted stock units ("RSU's") awarded under the Company's stock incentive plans are granted shortly after the end of each year and are based upon the performance of the Company and its individual subsidiaries. Under the 2011 Incentive Plan, RSU's can be earned for performance in each of the years from 2011 through 2015 with additional RSU's available based upon cumulative five-year performance. The Company estimates the number of shares that will be granted for the most recent fiscal year and the five-year cumulative performance based on actual and expected future operating results. The compensation expense for RSU's expected to be granted for the most recent fiscal year and the cumulative five-year based awards is calculated using the fair value of the Company stock at each period end and is adjusted to the fair value as of each future period end until granted. Generally, each award will vest on the earlier of the end of five years from the date of grant or at such time as the recipient retires after reaching age 65. Estimated forfeitures are based upon the expected turnover rates of the employees receiving awards under the plan.

Recent Accounting Pronouncements

There are no recently promulgated accounting pronouncements (either recently adopted or yet to be adopted) that are likely to have a material impact on the Company's financial reporting in the foreseeable future. See Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements.

Forward-Looking Statements

This annual report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements contained anywhere in this Annual Report that are not limited to historical information are considered forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding:

- execution of the Company's growth and operation strategy;
- plans for technological innovation;
- compliance with covenants in our credit facility;
- liquidity and capital expenditures;
- sufficiency of working capital, cash flows and available capacity under the Company's credit facilities;
- compliance with government regulations;
- compliance with manufacturing and delivery timetables;
- forecasting of results;
- general economic trends and political uncertainty;
- government funding and growth of highway construction and commercial projects;
- taxes or usage fees;
- interest rates;
- integration of acquisitions;
- industry trends;
- pricing, demand and availability of oil and liquid asphalt;
- pricing, demand and availability of steel;
- development of domestic oil and natural gas production;
- condition of the economy;
- strength of the dollar relative to foreign currencies;
- the success of new product lines;
- presence in the international marketplace;
- suitability of our current facilities;
- future payment of dividends;
- competition in our business segments;
- product liability and other claims;
- protection of proprietary technology;
- demand for products;
- future fillings of backlogs;
- employees;
- the seasonality of our business;
- tax assets and reserves for uncertain tax positions;
- critical accounting policies and the impact of accounting changes;
- anticipated start-up dates for our Brazilian operations;
- our backlog;
- ability to satisfy contingencies;
- contributions to retirement plans and plan expenses;
- reserve levels for self-insured insurance plans and product warranties;
- construction of new manufacturing facilities;
- supply of raw materials; and
- inventory.

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

In addition to the risks and uncertainties identified elsewhere herein and in documents filed by the Company with the Securities and Exchange Commission, the following factors should be carefully considered when evaluating the Company's business and future prospects: changes or delays in highway funding; rising interest rates; changes in oil prices; changes in steel prices; changes in the general economy; unexpected capital expenditures and decreases in liquidity; the timing of large contracts; production capacity; general business conditions in the industry; non-compliance with covenants in the Company's credit facilities; demand for the Company's products; and those other factors listed from time to time in the Company's reports filed with the Securities and Exchange Commission. Certain of the risks, uncertainties and other factors discussed or noted above are more fully described in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

ASTEC INDUSTRIES, INC.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Astec Industries, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on its assessment, management concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2012.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Astec Industries, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Astec Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

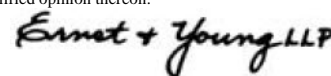
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

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

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

In our opinion, Astec Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Astec Industries, Inc. and the related consolidated statements of income, comprehensive income, equity and cash flows for the year ended December 31, 2012 and our report dated March 1, 2013 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chattanooga, Tennessee
March 1, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

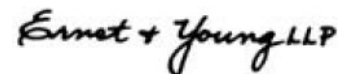
To the Board of Directors and Shareholders
Astec Industries, Inc.

We have audited the accompanying consolidated balance sheets of Astec Industries, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astec Industries, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Astec Industries, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chattanooga, Tennessee
March 1, 2013

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 80,929	\$ 57,505
Trade receivables, less allowance for doubtful accounts of \$2,143 in 2012 and \$2,398 in 2011	85,595	97,941
Other receivables	3,453	4,119
Inventories	308,622	299,065
Prepaid expenses	8,593	7,032
Deferred income tax assets	9,985	16,856
Other current assets	2,689	3,036
Total current assets	499,866	485,554
Property and equipment, net	182,839	188,018
Investments	10,232	9,739
Goodwill	15,011	14,989
Other long-term assets	16,617	18,583
Total assets	\$ 724,565	\$ 716,883
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 46,210	\$ 55,170
Customer deposits	44,224	42,287
Accrued product warranty	11,052	12,663
Accrued payroll and related liabilities	16,590	18,897
Accrued loss reserves	3,221	3,779
Other accrued liabilities	23,072	21,226
Total current liabilities	144,369	154,022
Deferred income tax liabilities	14,868	15,983
Other long-term liabilities	17,330	17,695
Total liabilities	176,567	187,700
Equity:		
Preferred stock - authorized 4,000 shares of \$1.00 par value; none issued	--	--
Common stock - authorized 40,000 shares of \$.20 par value; issued and outstanding - 22,799 in 2012 and 22,711 in 2011	4,560	4,542
Additional paid-in capital	133,809	132,744
Accumulated other comprehensive income	502	841
Company shares held by SERP, at cost	(2,855)	(2,487)
Retained earnings	410,338	392,937
Shareholders' equity	546,354	528,577
Non-controlling interest	1,644	606
Total equity	547,998	529,183
Total liabilities and equity	\$ 724,565	\$ 716,883

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share data)

	Year Ended December 31		
	2012	2011	2010
Net sales	\$ 936,273	\$ 908,641	\$ 737,084
Cost of sales	729,334	698,149	562,499
Gross profit	206,939	210,492	174,585
Selling, general and administrative expenses	136,323	132,371	109,354
Research and development expenses	20,520	20,764	15,987
Income from operations	50,096	57,357	49,244
Other income:			
Interest expense	339	190	339
Interest income	1,145	883	953
Other income (expense), net	1,783	1,082	632
Income from continuing operations before income taxes	52,685	59,132	50,490
Income taxes on continuing operations	19,096	19,337	16,649
Net income from continuing operations	33,589	39,795	33,841
Discontinued operations:			
Income (loss) from discontinued operations, net of tax	3,401	225	(1,269)
Gain on sale of subsidiary, net of tax	3,378	--	--
Income from discontinued operations	6,779	225	(1,269)
Net income	40,368	40,020	32,572
Net income attributable to non-controlling interest	161	102	142
Net income attributable to controlling interest	\$ 40,207	\$ 39,918	\$ 32,430
Earnings per Common Share			
Net income attributable to controlling interest from continuing operations:			
Basic	\$ 1.47	\$ 1.76	\$ 1.50
Diluted	1.45	1.73	1.48
Income (loss) from discontinued operations:			
Basic	0.30	0.01	(0.06)
Diluted	0.29	0.01	(0.06)
Net income attributable to controlling interest:			
Basic	1.77	1.77	1.44
Diluted	1.74	1.74	1.42
Weighted average number of common shares outstanding:			
Basic	22,680	22,589	22,517
Diluted	23,051	22,984	22,830

See Notes to Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31		
	2012	2011	2010
Net income	\$ 40,368	\$ 40,020	\$ 32,572
Other comprehensive income:			
Change in unrecognized pension and post-retirement benefit costs	(157)	(2,687)	(322)
Tax expense (benefit) on change in unrecognized pension and post-retirement benefit costs	(10)	976	98
Foreign currency translation adjustments	(626)	(5,723)	3,756
Tax expense (benefit) on foreign currency translation adjustments	454	229	(37)
Other comprehensive income (loss)	(339)	(7,205)	3,495
Comprehensive income (loss) attributable to non-controlling interest	15	(93)	100
Comprehensive income attributable to controlling interest	<u>\$ 40,044</u>	<u>\$ 32,722</u>	<u>\$ 36,167</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31		
	2012	2011	2010
Cash Flows from Operating Activities			
Net income	\$ 40,368	\$ 40,020	\$ 32,572
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of subsidiary	(5,358)	--	--
Depreciation	20,945	18,551	18,022
Amortization	2,103	708	706
Provision (credit) for doubtful accounts	759	1,510	(11)
Provision for warranty	11,152	13,029	13,365
Deferred compensation provision (benefit)	115	(45)	539
Deferred income tax provision (benefit)	6,150	(1,982)	(497)
Asset impairment charges	--	2,724	--
Gain on disposition of fixed assets	(256)	(54)	(8)
Tax benefit from stock option exercises	(107)	(310)	(579)
Stock-based compensation	1,285	2,800	2,395
Sale (purchase) of trading securities, net	(146)	1,733	946
(Increase) decrease in:			
Trade and other receivables	7,555	(24,554)	(11,911)
Inventories	(40,133)	(32,017)	(2,115)
Prepaid expenses	(1,728)	177	5,532
Other assets	(1,566)	45	511
Increase (decrease) in:			
Accounts payable	(6,425)	9,002	7,351
Customer deposits	4,918	6,235	8,328
Accrued product warranty	(11,021)	(10,524)	(12,293)
Income taxes payable	1,366	420	972
Accrued retirement benefit costs	(218)	(446)	(1,098)
Accrued loss reserves	(1,435)	342	(1,210)
Other accrued liabilities	298	4,983	2,267
Other	12	(40)	(1,748)
Net cash provided by operating activities	28,633	32,307	62,036
Cash Flows from Investing Activities			
Business acquisitions	--	(33,407)	--
Proceeds from sale of subsidiary	42,940	--	--
Proceeds from sale of property and equipment	375	260	202
Expenditures for property and equipment	(26,018)	(36,130)	(11,336)
Sale of intangible assets acquired	--	500	--
Net cash provided (used) by investing activities	17,297	(68,777)	(11,134)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	Year Ended December 31		
	2012	2011	2010
Cash Flows from Financing Activities			
Payment of dividends	\$ (22,790)	\$ --	\$ --
Proceeds from issuance of common stock	514	812	1,431
Tax benefit from stock option exercise	107	310	579
Cash from sale (acquisition) of shares of subsidiary	904	29	41
Purchase of company shares by Supplemental Executive Retirement Plan, net	(373)	(266)	(25)
Withholding tax paid upon vesting of restricted stock units	(834)	--	--
Net cash provided (used) by financing activities	(22,472)	885	2,026
Effect of exchange rates on cash	(34)	(1,507)	1,240
Increase (decrease) in cash and cash equivalents	23,424	(37,092)	54,168
Cash and cash equivalents, beginning of year	57,505	94,597	40,429
Cash and cash equivalents, end of year	\$ 80,929	\$ 57,505	\$ 94,597
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 366	\$ 193	\$ 352
Income taxes, net of refunds	\$ 13,722	\$ 21,473	\$ 8,504

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITY

For the Years Ended December 31, 2012, 2011 and 2010 (in thousands)

	Shares	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, 2009	22,551	\$ 4,510	\$ 124,381	\$ 4,551	\$ (2,128)	\$ 320,589	\$ 357	\$ 452,260
Net income						32,430	142	32,572
Other comprehensive income				3,495			100	3,595
Increase in ownership percentage of subsidiary							(1)	(1)
Stock-based compensation	6	1	2,394					2,395
Exercise of stock options, including tax benefit	90	18	1,992					2,010
Purchase of Company stock held by SERP, net			64		(89)			(25)
Balance December 31, 2010	<u>22,647</u>	<u>4,529</u>	<u>128,831</u>	<u>8,046</u>	<u>(2,217)</u>	<u>353,019</u>	<u>598</u>	<u>492,806</u>
Net income						39,918	102	40,020
Other comprehensive loss				(7,205)			(93)	(7,298)
Increase in ownership percentage of subsidiary							(1)	(1)
Stock-based compensation	5	1	2,799					2,800
Exercise of stock options and RSU vesting, including tax benefit	59	12	1,110					1,122
Purchase of Company stock held by SERP, net			4		(270)			(266)
Balance December 31, 2011	<u>22,711</u>	<u>4,542</u>	<u>132,744</u>	<u>841</u>	<u>(2,487)</u>	<u>392,937</u>	<u>606</u>	<u>529,183</u>
Net income						40,207	161	40,368
Dividends (\$1.00 per share)			16			(22,806)		(22,790)
Other comprehensive income (loss)				(339)			15	(324)
Decrease in ownership percentage of subsidiary							862	862
Stock-based compensation	6	1	1,284					1,285
Exercise of stock options and RSU vesting, including tax benefit	82	17	604					621
Withholding tax on vested RSU's			(834)					(834)
Purchase of Company stock held by SERP, net			(5)		(368)			(373)
Balance December 31, 2012	<u>22,799</u>	<u>\$ 4,560</u>	<u>\$ 133,809</u>	<u>\$ 502</u>	<u>\$ (2,855)</u>	<u>\$ 410,338</u>	<u>\$ 1,644</u>	<u>\$ 547,998</u>

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2012, 2011 and 2010

1. Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of Astec Industries, Inc. and its domestic and foreign subsidiaries. The Company's significant wholly-owned and consolidated subsidiaries at December 31, 2012 are as follows:

Astec Australia Pty Ltd	Astec Agregados E Mineracao Do Brasil
Astec, Inc.	Astec Insurance Company
Astec Mobile Machinery GmbH	Astec Mobile Screens, Inc.
Astec Underground, Inc.	Breaker Technology, Inc.
Breaker Technology Ltd.	Carlson Paving Products, Inc.
CEI Enterprises, Inc.	GEFCO, Inc.
Heatec, Inc.	Johnson Crushers International, Inc.
Kolberg-Pioneer, Inc.	Osborn Engineered Products SA (Pty) Ltd (94% owned)
Peterson Pacific Corp.	Roadtec, Inc.
Telsmith, Inc.	

On November 30, 2012, the Company sold its former American Augers, Inc. subsidiary to The Charles Machine Works, Inc. American Augers' results of operations have been reclassified as discontinued operations for all periods presented.

All intercompany accounts and transactions have been eliminated in consolidation.

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

Foreign Currency Translation - Subsidiaries located in Australia, Brazil, Canada, Germany and South Africa operate primarily using local functional currencies. Accordingly, assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting adjustments are presented as a separate component of accumulated other comprehensive income. Foreign currency transaction gains and losses, net are included in cost of sales and amounted to gains of \$273,000 and \$346,000 in 2012 and 2011, respectively, and a loss of \$450,000 in 2010.

Fair Value of Financial Instruments - For cash and cash equivalents, trade receivables, other receivables, revolving debt and accounts payable, the carrying amount approximates the fair value because of the short-term nature of those instruments. Trading equity investments are valued at their estimated fair value based on their quoted market prices and debt securities are valued based upon a mix of observable market prices and model driven prices derived from a matrix of observable market prices for assets with similar characteristics obtained from a nationally recognized third party pricing service.

Financial assets and liabilities are categorized as of the end of each reporting period based upon the level of judgment associated with the inputs used to measure their fair value. The inputs used to measure the fair value are identified in the following hierarchy:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Unadjusted quoted prices in active markets for similar assets or liabilities; or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 - Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All financial assets and liabilities held by the Company at December 31, 2012 and 2011 are classified as Level 1 or Level 2 as summarized in Note 3, Fair Value Measurements.

Cash and Cash Equivalents - All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash and cash equivalents.

Investments - Investments consist primarily of investment-grade marketable securities. Trading securities are carried at fair value, with unrealized holding gains and losses included in net income. Realized gains and losses are accounted for on the specific identification method. Purchases and sales are recorded on a trade date basis. Management determines the appropriate classification of its investments at the time of acquisition and reevaluates such determination at each balance sheet date.

Concentration of Credit Risk - The Company sells products to a wide variety of customers. Accounts receivable are carried at their outstanding principal amounts, less an allowance for doubtful accounts. The Company extends credit to its customers based on an evaluation of the customers' financial condition generally without requiring collateral although the Company normally requires advance payments or letters of credit on large equipment orders. Credit risk is driven by conditions within the economy and the industry and is principally dependent on each customer's financial condition. To minimize credit risk, the Company monitors credit levels and financial conditions of customers on a continuing basis. After considering historical trends for uncollectible accounts, current economic conditions and specific customer recent payment history and financial stability, the Company records an allowance for doubtful accounts at a level which management believes is sufficient to cover probable credit losses. Amounts are deemed past due when they exceed the payment terms agreed to by the customer in the sales contract. Past due amounts are charged off when reasonable collection efforts have been exhausted and the amounts are deemed uncollectible by management. As of December 31, 2012, concentrations of credit risk with respect to receivables are limited due to the wide variety of customers.

Allowance for Doubtful Accounts - The following table represents a rollforward of the allowance for doubtful accounts for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	Year Ended December 31		
	2012	2011	2010
Reserve balance, beginning of year	\$ 2,398	\$ 1,820	\$ 2,215
Provision (benefit)	759	1,510	(11)
Write offs	(764)	(884)	(437)
Other	(250)	(48)	53
Reserve balance, end of year	\$ 2,143	\$ 2,398	\$ 1,820

Inventories - Inventory costs include materials, labor and overhead. Inventories (excluding used equipment) are stated at the lower of first-in, first-out cost or market. Used equipment inventories are stated at the lower of specific unit cost or market.

When the Company determines that the value of inventory has become impaired through damage, deterioration, obsolescence, changes in price levels, excessive levels of inventory or other causes, the Company reduces the carrying value to estimated market value based on estimates, assumptions and judgments made from the information available at that time. Abnormal amounts of idle facility expense, freight, handling cost and wasted materials are recognized as current period charges.

Property and Equipment - Property and equipment is stated at cost. Depreciation is calculated for financial reporting purposes using the straight-line method based on the estimated useful lives of the assets as follows: airplanes (20 years), buildings (40 years) and equipment (3 to 10 years). Both accelerated and straight-line methods are used for tax compliance purposes. Routine repair and maintenance costs and planned major maintenance are expensed when incurred.

Goodwill and Other Intangible Assets - The Company classifies intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization, and (3) goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company tests intangible assets with definite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. An impairment charge is recorded when the carrying value of the definite lived intangible asset is not recoverable by the future undiscounted cash flows generated from the use of the asset.

The Company determines the useful lives of identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors considered when determining useful lives include the contractual terms of agreements, the history of the asset, the Company's long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized over their useful lives, ranging from 5 to 15 years.

Intangible assets with indefinite lives including goodwill are not amortized. The Company tests these intangible assets and goodwill for impairment annually or more frequently if events or circumstances indicate that such intangible assets or goodwill might be impaired. The Company performs impairment tests of goodwill using a two-step method at the reporting unit level and of other indefinite lived intangible assets at the asset level. The Company's reporting units are typically defined as its subsidiaries as each subsidiary is a legal entity that is managed separately and manufactures and distributes distinct product lines.

In 2011, the Company early adopted, as permitted, new accounting guidance related to annual goodwill impairment testing. The guidance gives the Company the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If the Company concludes that this is the case for a reporting unit, it would proceed to calculating the fair value for that reporting unit as described below. Otherwise, the Company would not be required to perform any further goodwill impairment testing for that reporting unit.

The first step of the goodwill impairment test compares book value of a reporting unit, including goodwill, with the unit's fair value. In this first step, the Company estimates the fair values of each of its reporting units that have goodwill using the income approach.

The income approach uses a reporting unit's projection of estimated future operating results and cash flows which are then discounted using a weighted average cost of capital determined based on current market conditions for the individual reporting unit. The projection uses management's best estimates of cash flows over the projection period based on estimates of annual and terminal growth rates in sales and costs, changes in operating margins, selling, general and administrative expenses, working capital requirements and capital expenditures.

The Company typically estimates the fair value of the operating subsidiaries/reporting units that do not have goodwill using either the income or market approaches, depending on which approach is considered to be the most appropriate for each reporting unit. The Company typically estimates the fair value of the reporting units that serve operating units in supporting roles, such as the captive insurance company and the corporate reporting unit, using the cost approach. The Company then compares the sum of the fair values of all reporting units to its calculation of the fair value of the consolidated Company using the market approach, which is inferred from the market capitalization of the Company at the date of the valuation, to confirm that the Company's estimation of the fair value of its reporting units is reasonable.

If the book value of a reporting unit exceeds its fair value, an indication of possible goodwill impairment, the second step of the impairment test must be performed to determine the amount, if any, of goodwill impairment. In this second step, the total implied fair value of the reporting unit's goodwill is estimated by allocating the fair value of the reporting unit to all its assets, including any unrecognized intangible assets and liabilities other than goodwill. The difference between the total fair value of the reporting unit and the fair value of its assets and liabilities other than goodwill is the implied fair value of its goodwill. The amount of any impairment loss is equal to the excess, if any, of the book value of the goodwill over the implied fair value of its goodwill.

Determining the "step one" fair values of the Company's reporting units involves the use of significant estimates and assumptions. Due to the inherent uncertainty involved in making these estimates and assumptions, actual results could differ materially from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-lived Assets - In the event that facts and circumstances indicate the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability is performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount for each asset (or group of assets) to determine if a writedown is required. If this review indicates that the assets will not be recoverable, the carrying values of the impaired assets are reduced to their estimated fair value. Fair value is estimated using discounted cash flows, prices for similar assets or other valuation techniques.

Self-Insurance Reserves - The Company retains the risk for a portion of its workers' compensation claims and general liability claims by way of a captive insurance company, Astec Insurance Company, ("Astec Insurance" or "the captive"). Astec Insurance is incorporated under the laws of the state of Vermont. The objectives of Astec Insurance are to improve control over and reduce the cost of claims; to improve focus on risk reduction with development of a program structure which rewards proactive loss control; and to ensure management participation in the defense and settlement process for claims.

For general liability claims, the captive is liable for the first \$1,000,000 per occurrence and \$2,500,000 per year in the aggregate. The Company carries general liability, excess liability and umbrella policies for claims in excess of those covered by the captive.

For workers' compensation claims, the captive is liable for the first \$350,000 per occurrence and \$3,000,000 per year in the aggregate. The Company utilizes a large national insurance company as third party administrator for workers' compensation claims and carries insurance coverage for claims liabilities in excess of amounts covered by the captive.

The financial statements of the captive are consolidated into the financial statements of the Company. The short-term and long-term reserves for claims and potential claims related to general liability and workers' compensation under the captive are included in accrued loss reserves or other long-term liabilities, respectively, in the consolidated balance sheets depending on the expected timing of future payments. The undiscounted reserves are actuarially determined to cover the ultimate cost of each claim based on the Company's evaluation of the type and severity of individual claims and historical information, primarily its own claims experience, along with assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change in the future. However, the Company does not believe it is reasonably likely that the reserve level will materially change in the foreseeable future.

At all but one of the Company's domestic manufacturing subsidiaries, the Company is self-insured for health and prescription claims under its Group Health Insurance Plan. The Company carries reinsurance coverage to limit its exposure for individual health claims above certain limits. Third parties administer health claims and prescription medication claims. The Company maintains a reserve for the self-insured health plan which is included in accrued loss reserves on the Company's consolidated balance sheets. This reserve includes both unpaid claims and an estimate of claims incurred but not reported, based on historical claims and payment experience. Historically the reserves have been sufficient to provide for claims payments. Changes in actual claims experience or payment patterns could cause the reserve to change, but the Company does not believe it is reasonably likely that the reserve level will materially change in the near future.

The remaining U.S. subsidiary is covered under a fully insured group health plan. Employees of the Company's foreign subsidiaries are insured under separate health plans. No reserves are necessary for these fully insured health plans.

Revenue Recognition - Revenue is generally recognized on sales at the point in time when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product has been delivered or services have been rendered and there is a reasonable assurance of collection of the sales proceeds. The Company generally obtains purchase authorizations from its customers for a specified amount of products at a specified price with specified delivery terms. A significant 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. Most of the equipment sold by the Company is based on standard configurations, some of which are modified to meet customer needs or specifications. The Company provides customers with technical design and performance specifications and performs pre-shipment testing to ensure the equipment performs according to design specifications, regardless of whether the Company provides installation services in addition to selling the equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Certain contracts include terms and conditions pursuant to 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 risk of ownership and when collectability is reasonably assured. In addition, there must be a fixed schedule of delivery of the goods consistent with the customer's business practices, the Company must not have retained any specific performance obligations such that the earnings process is not complete and the goods must have been segregated from the Company's inventory prior to revenue recognition.

The Company accounts for certain sales as multiple-element arrangements, whereby the revenue attributable to the sale of a product is recognized when the product is shipped and the revenue attributable to services provided with respect to the product (such as installation services) is recognized when the service is performed. Consideration is determined using the fair value method and approximates sales price of the product shipped or service performed. The Company evaluates sales with multiple deliverable elements (such as an agreement to deliver equipment and related installation services) to determine whether revenue related to individual elements should be recognized separately, or as a combined unit. In addition to the previously mentioned general revenue recognition criteria, the Company only recognizes revenue on individual delivered elements when there is objective and reliable evidence that the delivered element has a determinable value to the customer on a standalone basis and there is no right of return.

The Company presents in the statements of income any taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between the Company and its customers, such as sales, use, value-added and some excise taxes, on a net (excluded from revenue) basis.

Advertising Expense - The cost of advertising is expensed as incurred. The Company incurred \$4,223,000, \$3,346,000, and \$2,830,000 in advertising costs during 2012, 2011 and 2010, respectively, which is included in selling, general and administrative expenses.

Income Taxes - Income taxes are based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. The Company periodically assesses the need to establish valuation allowances against its deferred tax assets to the extent the Company no longer believes it is more likely than not that the tax assets will be fully utilized.

The Company evaluates a tax position to determine whether it is more likely than not that the tax position will be sustained upon examination, based upon the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is subject to a measurement assessment to determine the amount of benefit to recognize and the appropriate reserve to establish, if any. If a tax position does not meet the more-likely-than-not recognition threshold, no benefit is recognized. The Company is periodically audited by U.S. federal and state as well as foreign tax authorities. While it is often difficult to predict final outcome or timing of resolution of any particular tax matter, the Company believes its reserve for uncertain tax positions is adequate to reduce the uncertain positions to the greatest amount of benefit that is more likely than not realizable.

Product Warranty Reserve - The Company accrues for the estimated cost of product warranties at the time revenue is recognized. Warranty obligations by product line or model are evaluated based on historical warranty claims experience. For machines, the Company's standard product warranty terms generally include post-sales support and repairs of products at no additional charge for periods ranging from three months to two years or up to a specified number of hours of operation. For parts from component suppliers, the Company relies on the original manufacturer's warranty that accompanies those parts. Generally, Company fabricated parts are not covered by specific warranty terms. Although failure of fabricated parts due to material or workmanship is rare, if it occurs, the Company's policy is to replace fabricated parts at no additional charge.

The Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Estimated warranty obligations are based upon warranty terms, product failure rates, repair costs and current period machine shipments. If actual product failure rates, repair costs, service delivery costs or post-sales support costs differ from our estimates, revisions to the estimated warranty liability would be required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension and Retirement Plans - The determination of obligations and expenses under the Company's pension plan is dependent on the Company's selection of certain assumptions used by independent actuaries in calculating such amounts. Those assumptions are described in Note 12, Pension and Retirement Plans and include among others, the discount rate, expected return on plan assets and the expected mortality rates. In accordance with accounting principles generally accepted in the United States, actual results that differ from assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense in such periods. Significant differences in actual experience or significant changes in the assumptions used may materially affect the pension obligations and future expenses.

The Company recognizes as an asset or liability the overfunded or underfunded status of its pension plan. Actuarial gains and losses, amortization of prior service cost (credit) and amortization of transition obligations are recognized through other comprehensive income in the year in which the changes occur. The Company measures the funded status of its pension plan as of the date of the Company's fiscal year-end.

Stock-based Compensation - The Company currently has two types of stock-based compensation plans in effect for its employees and directors. The Company's stock option plans have been in effect for a number of years; however, no options have been granted under the plans since 2006. The Company's stock incentive plans were put in place during 2006 and will continue through 2015. These plans are more fully described in Note 16, Shareholders' Equity. The Company recognizes the cost of employee services received in exchange for equity awards in the financial statements based on the grant date calculated fair value of the awards. The Company recognizes stock-based compensation expense over the period during which an employee is required to provide service in exchange for the award (the vesting period).

Restricted stock units ("RSU's") awarded under the Company's 2006 Incentive Plans were granted shortly after the end of each year through 2010 based upon the performance of the Company and its individual subsidiaries. RSU's were granted for performance in each of the years from 2006 through 2010 with additional RSU's granted based upon cumulative five-year performance. Upon the expiration of the 2006 Incentive Plan, the Company adopted a 2011 Incentive Plan which operates similar to the 2006 Incentive Plan for each of the five years ending December 31, 2015. The Company estimates the number of shares that will be granted for the most recent fiscal year end and the five-year cumulative performance based on actual and expected future operating results. Compensation expense for RSU's expected to be granted for the most recent fiscal year and the cumulative five-year based awards is calculated using the fair value of the Company stock at each period end and is adjusted to the fair value as of each future period-end until granted.

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, restricted stock units and shares held in the Company's supplemental executive retirement plan.

The following table sets forth a reconciliation of the number of shares used in the computation of basic and diluted earnings per share (in thousands):

	Year Ended December 31		
	2012	2011	2010
Denominator:			
Denominator for basic earnings per share	22,680	22,589	22,517
Effect of dilutive securities:			
Employee stock options and restricted stock units	262	294	215
Supplemental executive retirement plan	109	101	98
Denominator for diluted earnings per share	23,051	22,984	22,830

For the years ended December 31, 2012, 2011 and 2010, antidilutive options totaled 885, 885 and 1,000, respectively. Antidilutive options were not included in the diluted EPS computation for the years presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivatives and Hedging Activities - The Company recognizes all derivatives in the consolidated balance sheets at their fair value. Derivatives that are not hedges are 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. From time to time the Company's foreign subsidiaries enter into foreign currency exchange contracts to mitigate exposure to fluctuation in currency exchange rates. See Note 13, Derivative Financial Instruments, regarding foreign exchange contracts outstanding at December 31, 2012 and 2011.

Shipping and Handling Fees and Cost - The Company records revenues earned for shipping and handling as revenue, while the cost of shipping and handling is classified as cost of goods sold.

Litigation Contingencies - In the normal course of business in the industry, the Company is named as a defendant in a number of legal proceedings associated with product liability and other matters. See Note 15, Contingent Matters for additional discussion of the Company's legal contingencies.

Business Combinations - The Company accounts for business combinations using the acquisition method. Accordingly, intangible assets are recorded apart from goodwill if they arise from contractual or legal rights or if they are separable from goodwill. Related third party acquisition costs are expensed as incurred and contingent consideration is booked at its fair value as part of the purchase price.

Subsequent Events Review - Management has evaluated events occurring between December 31, 2012 and the date these financial statements were filed with the Securities and Exchange Commission for proper recording or disclosure therein.

Recent Accounting Pronouncements - In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" which results in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. While the FASB stated that for many of the requirements it did not intend for the amendments in the update to result in a change in the application of the requirements of Topic 820, some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Additionally, other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The update is effective for interim and annual periods beginning after December 15, 2011 and its amendments must be applied prospectively. The Company adopted its provisions effective January 1, 2012. The adoption of this pronouncement did not have a significant impact on the Company's financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Comprehensive Income (Topic 220), Presentation of Comprehensive Income" which changes the way companies present other comprehensive income and its components in financial statements. The new standards require that companies present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted the provisions of this update in 2012. The adoption of this update did not have an impact on the Company's financial position or results of operations.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, "Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities" which describes when it is appropriate to offset financial assets and liabilities on the balance sheet. Companies will now have to disclose both gross and net information about instruments eligible for offset in the statement of financial position, instruments and transactions subject to an agreement similar to a master netting arrangement, and the collateral received in a master netting arrangement. The new disclosure will enable users of financial statements to understand significant quantitative differences in balance sheets prepared under US GAAP and IFRS related to the offsetting of financial instruments. The update is effective for annual and interim reporting periods beginning on or after January 1, 2013. Adopting this update is not expected to have an impact on the Company's financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Inventories

Inventories consist of the following (in thousands):

	December 31	
	2012	2011
Raw materials and parts	\$ 129,676	\$ 125,730
Work-in-process	76,052	71,490
Finished goods	81,000	80,157
Used equipment	21,894	21,688
Total	\$ 308,622	\$ 299,065

3. Fair Value Measurements

The Company has various financial instruments that must be measured at fair value on a recurring basis, including marketable debt and equity securities held by Astec Insurance Company ("Astec Insurance"), the Company's captive insurance company, and marketable equity securities held in an unqualified Supplemental Executive Retirement Plan ("SERP"). The financial assets held in the SERP also constitute a liability of the Company for financial reporting purposes. The Company's subsidiaries also occasionally enter into foreign currency exchange contracts to mitigate exposure to fluctuations in currency exchange rates.

For cash and cash equivalents, trade receivables, other receivables, revolving debt and accounts payable, 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. The fair values of foreign currency exchange contracts are based on quotations from various banks for similar instruments using models with market based inputs.

As indicated in the tables below, the Company has determined that its financial assets and liabilities at December 31, 2012 and 2011 are level 1 and level 2 in the fair value hierarchy (in thousands):

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Financial Assets:				
Trading equity securities:				
SERP money market fund	\$ 996	\$ --	\$ --	\$ 996
SERP mutual funds	1,835	--	--	1,835
Preferred stocks	720	--	--	720
Trading debt securities:				
Corporate bonds	3,342	909	--	4,251
Municipal bonds	1,449	957	--	2,406
Floating rate notes	749	--	--	749
U.S. Treasury bill	200	--	--	200
Other government bonds	--	409	--	409
Total financial assets	\$ 9,291	\$ 2,275	\$ --	\$ 11,566
Financial Liabilities:				
SERP liabilities	\$ --	\$ 6,674	\$ --	\$ 6,674
Derivative financial instruments	--	145	--	145
Total financial liabilities	\$ --	\$ 6,819	\$ --	\$ 6,819

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Trading equity securities:				
SERP money market fund	\$ 989	\$ --	\$ --	\$ 989
SERP mutual funds	1,732	--	--	1,732
Preferred stocks	441	--	--	441
Trading debt securities:				
Corporate bonds	1,649	2,238	--	3,887
Municipal bonds	211	2,880	--	3,091
Floating rate notes	97	233	--	330
U.S. Treasury bill	250	--	--	250
Other government bonds	--	343	--	343
Derivative financial instruments	--	307	--	307
Total financial assets	\$ 5,369	\$ 6,001	\$ --	\$ 11,370
Financial Liabilities:				
SERP liabilities	\$ --	\$ 6,076	\$ --	\$ 6,076
Derivative financial instruments	--	50	--	50
Total financial liabilities	\$ --	\$ 6,126	\$ --	\$ 6,126

4. Investments

The Company's trading securities consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
December 31, 2012				
Trading equity securities	\$ 3,432	\$ 130	\$ 11	\$ 3,551
Trading debt securities	7,836	228	49	8,015
Total	\$ 11,268	\$ 358	\$ 60	\$ 11,566
December 31, 2011				
Trading equity securities	\$ 3,160	\$ 81	\$ 79	\$ 3,162
Trading debt securities	7,761	211	71	7,901
Total	\$ 10,921	\$ 292	\$ 150	\$ 11,063

Trading equity investments noted above are valued at their estimated fair value based on their quoted market prices and trading debt securities are valued based upon a mix of observable market prices and model driven prices derived from a matrix of observable market prices for assets with similar characteristics obtained from a nationally recognized third party pricing service. Additionally, a significant portion of the trading equity securities are in equity money market and mutual funds and also comprise a portion of the Company's liability under its SERP. See Note 12, Pension and Retirement Plans, for additional information on these investments and the SERP.

Trading debt securities are comprised mainly of marketable debt securities held by Astec Insurance. Astec Insurance has an investment strategy that focuses on providing regular and predictable interest income from a diversified portfolio of high-quality fixed income securities. At December 31, 2012 and 2011, \$1,334,000 and \$1,324,000, respectively, of trading debt securities were due to mature within twelve months and, accordingly, are included in other current assets.

Net unrealized gains or (losses) incurred during 2012, 2011 and 2010 on investments still held as of the end of each reporting period, amounted to \$173,000, (\$77,000) and \$219,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Current U.S. accounting guidance provides that goodwill and indefinite-lived intangible assets be tested for impairment at least annually. The Company performs the required valuation procedures each year as of December 31 after the following year's forecasts are submitted and reviewed. The valuations performed in 2012, 2011 and 2010 indicated no impairment of goodwill.

The changes in the carrying amount of goodwill by reporting segment during the years ended December 31, 2012 and 2011 are as follows (in thousands):

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	Other	Total
Balance, December 31, 2010	\$ 5,922	\$ 6,339	\$ 1,646	\$ --	\$ --	\$ 13,907
Business acquisition	--	--	1,171	--	--	1,171
Foreign currency translation	--	--	(89)	--	--	(89)
Balance, December 31, 2011	5,922	6,339	2,728	--	--	14,989
Foreign currency translation	--	--	22	--	--	22
Balance, December 31, 2012	<u>\$ 5,922</u>	<u>\$ 6,339</u>	<u>\$ 2,750</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 15,011</u>

6. Long-lived and Intangible Assets

Long-lived assets, including finite-lived intangible assets, are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses for long-lived assets "held and used" and finite-lived intangible assets are recorded if the sum of the estimated future undiscounted cash flows used to test for recoverability is less than the carrying value.

As a result of certain aviation equipment being classified as held for sale in 2011, an impairment charge was recorded in the amount of \$2,304,000 in selling, general and administrative expenses by the All Others Group to reduce the carrying value of the asset to its fair value as determined based upon the industry blue book valuations of used aircraft (level 3 in the fair value hierarchy). The \$800,000 carrying value of these assets held for sale, which were sold in 2012, was included in other current assets in the Company's December 31, 2011 consolidated balance sheet. Additional impairment charges of \$394,000 were recorded in 2011 related to long-lived assets and other charges related to inventory valuation of \$1,845,000 were included in cost of sales in the Underground Group due to the sale of the utility product line assets. An additional impairment charge of \$26,000 was recorded in 2011 by the Asphalt Group related to long-lived assets.

Amortization expense on intangible assets was \$1,855,000, \$573,000 and \$598,000 for 2012, 2011 and 2010, respectively. Intangible assets, which are included in other long-term assets on the accompanying consolidated balance sheets, consisted of the following at December 31, 2012 and 2011 (in thousands):

	2012			2011		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Dealer network and customer relationships	\$ 7,062	\$ (2,527)	\$ 4,535	\$ 7,029	\$ (1,068)	\$ 5,961
Trade names	2,609	(184)	2,425	2,609	(1)	2,608
Other	1,524	(659)	865	1,667	(446)	1,221
Total	<u>\$ 11,195</u>	<u>\$ (3,370)</u>	<u>\$ 7,825</u>	<u>\$ 11,305</u>	<u>\$ (1,515)</u>	<u>\$ 9,790</u>

Intangible asset amortization expense is expected to be \$1,109,000, \$998,000, \$926,000, \$806,000 and \$715,000 in the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively, and \$3,271,000 thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31	
	2012	2011
Land	\$ 13,000	\$ 13,052
Building and land improvements	130,105	134,513
Manufacturing and office equipment	217,047	209,939
Aviation equipment	14,852	14,830
Less accumulated depreciation	(192,165)	(184,316)
Total	\$ 182,839	\$ 188,018

Depreciation expense was \$20,945,000, \$18,551,000 and \$18,022,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

8. Leases

The Company leases certain land, buildings and equipment for use in its operations under various operating leases. Total rental expense charged to operations under operating leases was approximately \$2,753,000, \$2,472,000 and \$2,343,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Minimum rental commitments for all noncancelable operating leases at December 31, 2012 are as follows (in thousands):

2013	\$	1,302
2014		739
2015		261
2016		171
2017		14
Thereafter		1
	\$	<u>2,488</u>

9. Debt

During April 2007, the Company entered into an unsecured credit agreement with Wachovia Bank, National Association ("Wachovia") whereby Wachovia extended to the Company an unsecured line of credit of up to \$100,000,000 including a sub-limit for letters of credit of up to \$15,000,000. Wachovia has subsequently been acquired by Wells Fargo Bank, N.A. ("Wells Fargo") and therefore the credit agreement was transferred to Wells Fargo. The credit facility had an original term of three years with two one-year extensions available. The Company exercised the final extension in 2010 which extended the loan maturity date to May 2012. On April 12, 2012, the Company and certain of its subsidiaries entered into a new amended and restated credit agreement with Wells Fargo whereby Wells Fargo extended to the Company an unsecured line of credit of up to \$100,000,000, including a sub-limit for letters of credit of up to \$25,000,000. The new amended and restated credit agreement replaced the expiring \$100,000,000 credit facility between the Company and Wells Fargo. There were no outstanding revolving or term loan borrowings under the credit facilities at the time of transition or as of December 31, 2012. Letters of credit totaling \$13,113,000 were outstanding under the new agreement as of December 31, 2012, resulting in additional borrowing ability of \$86,887,000 on the Wells Fargo credit facility as of December 31, 2012. The new amended and restated agreement has a five-year term expiring in April 2017. Borrowings under the agreement are subject to an interest rate equal to the daily one-month LIBOR rate plus a 0.75% margin. The unused facility fee is 0.175%. Interest only payments are due monthly. The new amended and restated credit agreement contains certain financial covenants, including provisions concerning required levels of annual net income, minimum tangible net worth and maximum allowed capital expenditures. The Company was in compliance with these covenants as of December 31, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd ("Osborn"), has a credit facility of \$8,837,000 (ZAR 75,000,000) to finance short-term working capital needs, as well as to cover performance letters of credit, advance payment and retention guarantees. As of December 31, 2012, Osborn had no outstanding borrowings under the credit facility, but \$3,388,000 in performance, advance payment and retention guarantees were issued under the facility. The facility is unsecured. As of December 31, 2012, Osborn had available credit under the facility of \$5,449,000. The facility has an ongoing, indefinite term subject to periodic reviews by the bank. The interest rate is 0.25% below the South Africa prime rate which was 8.5% at December 31, 2012.

The Company's Australian subsidiary, Astec Australia Pty Ltd ("Astec Australia"), has a credit facility to finance short-term working capital needs of \$104,000 (AUD 100,000) as well as a bank guarantee facility of \$1,350,000 (AUD 1,300,000) to cover letters of credit. Additional banking arrangements are in place to finance foreign exchange dealer limit orders of up to \$3,894,000 (AUD 3,750,000), secured by cash balances in the amount of \$779,000 (AUD 750,000) and a \$1,600,000 letter of credit issued by the parent Company. As of December 31, 2012, no amounts were outstanding under the credit facility, but \$1,209,000 of letters of credit were outstanding under the bank guarantee facility. The interest rate is the Australian adjusted Bank Business Rate plus a margin of 1.05%. The interest rate was 11.17% at December 31, 2012.

10. Product Warranty Reserves

The Company warrants its products against manufacturing defects and performance to specified standards. The warranty period and performance standards vary by product, but generally range from three months to two years or up to a specified number of hours of operation. The Company estimates the costs that may be incurred under its warranties and records a liability at the time product sales are recorded. The warranty liability is primarily based on historical claim rates, nature of claims and the associated costs.

Changes in the Company's product warranty liability during 2012, 2011 and 2010 are as follows (in thousands):

	2012	2011	2010
Reserve balance, beginning of year	\$ 12,663	\$ 9,891	\$ 8,714
Warranty liabilities accrued	11,152	13,029	13,365
Warranty liabilities settled	(11,022)	(10,567)	(12,270)
Other	(1,741)	310	82
Reserve balance, end of year	<u>\$ 11,052</u>	<u>\$ 12,663</u>	<u>\$ 9,891</u>

11. Accrued Loss Reserves

The Company accrues reserves for losses related to known workers' compensation and general liability claims that have been incurred but not yet paid or are estimated to have been incurred but not yet reported to the Company. The undiscounted reserves are actuarially determined based on the Company's evaluation of the type and severity of individual claims and historical information, primarily its own claim experience, along with assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change in the future. Total accrued loss reserves at December 31, 2012 were \$7,315,000 compared to \$8,692,000 at December 31, 2011, of which \$4,094,000 and \$4,913,000 was included in other long-term liabilities at December 31, 2012 and 2011, respectively.

12. Pension and Retirement Plans

Prior to December 31, 2003, all employees of the Company's Kolberg-Pioneer, Inc. subsidiary were covered by a defined benefit pension plan. After December 31, 2003, all benefit accruals under the plan ceased and no new employees could become participants in the plan. Benefits paid under this plan are based on years of service multiplied by a monthly amount. The Company's funding policy for the plan is to make the minimum annual contributions required by applicable regulations.

The Company's investment strategy for the plan is to earn a rate of return sufficient to match or exceed the long-term growth of pension liabilities. The investment policy states that the Plan Committee in its sole discretion shall determine the allocation of plan assets among the following four asset classes: cash equivalents, fixed-income securities, domestic equities and international equities. The Plan Committee attempts to ensure adequate diversification of the invested assets through investment in an exchange traded mutual fund that invests in a diversified portfolio of stocks, bonds and money market securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following provides information regarding benefit obligations, plan assets and the funded status of the plan (in thousands, except as noted *):

	Pension Benefits	
	2012	2011
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 13,699	\$ 11,454
Interest cost	599	604
Actuarial loss	1,161	2,141
Benefits paid	(501)	(500)
Benefit obligation, end of year	14,958	13,699
Accumulated benefit obligation	\$ 14,958	\$ 13,699
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 9,378	\$ 9,376
Actual gain on plan assets	1,152	19
Employer contribution	755	483
Benefits paid	(501)	(500)
Fair value of plan assets, end of year	10,784	9,378
Funded status, end of year	\$ (4,174)	\$ (4,321)
Amounts recognized in the consolidated balance sheets		
Noncurrent liabilities	\$ (4,174)	\$ (4,321)
Net amount recognized	\$ (4,174)	\$ (4,321)
Amounts recognized in accumulated other comprehensive income consist of		
Net loss	\$ 6,721	\$ 6,567
Net amount recognized	\$ 6,721	\$ 6,567
Weighted average assumptions used to determine benefit obligations as of December 31*		
Discount rate	3.82%	4.46%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

The measurement date used for the plan was December 31.

In determining the expected return on plan assets, the historical experience of the plan assets, the current and expected allocation of the plan assets and the expected long-term rates of return were considered.

All assets in the plan are invested in an exchange traded mutual fund. The allocation of assets within the mutual fund as of the measurement date (December 31) and the target asset allocation ranges by asset category are as follows:

Asset Category	Actual Allocation		2012 & 2011 Target Allocation Ranges
	2012	2011	
Equity securities	63.5%	63.5%	53 - 73%
Debt securities	32.6%	32.7%	21 - 41%
Money market funds	3.9%	3.8%	0 - 15%
Total	100.0%	100.0%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net periodic benefit cost for 2012, 2011 and 2010 included the following components (in thousands, except as noted *):

	Pension Benefits		
	2012	2011	2010
Components of net periodic benefit cost			
Interest cost	\$ 599	\$ 604	\$ 607
Expected return on plan assets	(648)	(741)	(610)
Amortization of actuarial loss	502	257	255
Net periodic benefit cost	453	120	252
Other changes in plan assets and benefit obligations recognized in other comprehensive income			
Net actuarial loss for the year	656	2,864	210
Amortization of net loss	(502)	(257)	(255)
Total recognized in other comprehensive income	154	2,607	(45)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 607	\$ 2,727	\$ 207
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31*			
Discount rate	4.46%	5.40%	5.78%
Expected return on plan assets	7.00%	8.00%	8.00%

The Company expects to contribute \$544,000 to the plan during 2013.

Amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit cost in 2013 for the amortization of a net loss is \$536,000.

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

	Pension Benefits
2013	\$ 560
2014	680
2015	700
2016	740
2017	790
2018 - 2022	4,250

The Company sponsors a 401(k) defined contribution plan to provide eligible employees with additional income upon retirement. The Company's contributions to the plan are based on employee contributions. The Company's contributions totaled \$5,099,000, \$4,515,000, and \$3,866,000 in 2012, 2011 and 2010, respectively.

The Company maintains a Supplemental Executive Retirement Plan ("SERP") for certain of its executive officers. The plan is a non-qualified deferred compensation plan administered by the Board of Directors of the Company, pursuant to which the Company makes quarterly cash contributions of a certain percentage of executive officers' compensation. Investments are self-directed by participants and can include Company stock. Upon retirement, participants receive their apportioned share of the plan assets in the form of cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets of the SERP consist of the following (in thousands):

	December 31, 2012		December 31, 2011	
	Cost	Market	Cost	Market
Company stock	\$ 2,855	\$ 3,844	\$ 2,487	\$ 3,354
Equity securities	2,745	2,830	2,696	2,721
Total	\$ 5,600	\$ 6,674	\$ 5,183	\$ 6,075

The Company periodically adjusts the deferred compensation liability such that the balance of the liability equals the total fair market value of all assets held by the trust established under the SERP. Such liabilities are included in other long-term liabilities on the consolidated balance sheets. The equity securities are included in investments in the consolidated balance sheets and classified as trading equity securities. See Note 4, Investments for additional information. The cost of the Company stock held by the plan is included as a reduction in shareholders' equity in the consolidated balance sheets.

The change in the fair market value of Company stock held in the SERP results in a charge or credit to selling, general and administrative expenses in the consolidated statements of income because the acquisition cost of the Company stock in the SERP is recorded as a reduction of shareholders' equity and is not adjusted to fair market value; however, the related liability is adjusted to the fair market value of the stock as of each period end. The Company recognized expense of \$115,000 and \$539,000 in 2012 and 2010, respectively, and income of \$45,000 in 2011 related to the change in the fair value of the Company stock held in the SERP.

13. Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is foreign currency risk. From time to time the Company's foreign subsidiaries enter into foreign currency exchange contracts to mitigate exposure to fluctuations in currency exchange rates. The fair value of the derivative financial instrument is recorded on the Company's balance sheet and is adjusted to fair value at each measurement date. The changes in fair value are recognized in the consolidated statements of income in the current period. The Company does not engage in speculative transactions nor does it hold or issue derivative financial instruments for trading purposes. The average U.S. dollar equivalent notional amount of outstanding foreign currency exchange contracts was \$8,634,000 during 2012. At December 31, 2012, the Company reported \$145,000 of derivative liabilities in other accrued liabilities. The Company reported \$307,000 of derivative assets in other current assets and \$50,000 of derivative liabilities in other current liabilities as of December 31, 2011. The Company recognized, as a component of cost of sales, net losses on the change in fair value of derivative instruments of \$594,000, \$144,000 and \$1,473,000 for the years ended December 31, 2012, 2011 and 2010, respectively. There were no derivatives that were designated as hedges at December 31, 2012 or 2011.

14. Income Taxes

For financial reporting purposes, income from continuing operations before income taxes includes the following components (in thousands):

	Year Ended December 31		
	2012	2011	2010
Continuing operations			
United States	\$ 46,388	\$ 51,542	\$ 41,516
Foreign	6,297	7,590	8,974
Income from continuing operations before income taxes	\$ 52,685	\$ 59,132	\$ 50,490

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31		
	2012	2011	2010
Continuing operations			
Current provision:			
Federal	\$ 9,306	\$ 16,874	\$ 12,576
State	1,988	3,043	2,226
Foreign	1,996	1,481	2,131
Total current provision	13,290	21,398	16,933
Deferred provision (benefit):			
Federal	6,145	(1,901)	(684)
State	(730)	(580)	73
Foreign	391	420	327
Total deferred provision (benefit)	5,806	(2,061)	(284)
Total provision:			
Federal	15,451	14,973	11,892
State	1,258	2,463	2,299
Foreign	2,387	1,901	2,458
Income tax provision on continuing operations	19,096	19,337	16,649
Income tax provision (benefit) on discontinued operations	3,796	(56)	(518)
Total tax provision	\$ 22,892	\$ 19,281	\$ 16,131

The Company's income tax provision is computed based on the domestic and foreign federal statutory rates and the average state statutory rates, net of related federal benefit.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before income taxes. A reconciliation of the provision for income taxes at the statutory federal income tax rate to the amount provided is as follows (in thousands):

	Year Ended December 31		
	2012	2011	2010
Continuing operations			
Tax at the statutory federal income tax rate	\$ 18,440	\$ 20,696	\$ 17,672
Qualified production activity deduction	(936)	(1,201)	(794)
State income tax, net of federal income tax	714	1,601	1,494
Other permanent differences	360	370	272
Research and development tax credits	(420)	(2,135)	(1,849)
Change in valuation allowance	1,035	63	222
Other items	(97)	(57)	(368)
Income tax provision on continued operations	19,096	19,337	16,649
Income tax provision (benefit) on discontinued operations	3,796	(56)	(518)
Total tax provision	\$ 22,892	\$ 19,281	\$ 16,131

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

	December 31	
	2012	2011
Deferred tax assets:		
Inventory reserves	\$ 3,696	\$ 8,468
Warranty reserves	2,891	3,868
Bad debt reserves	677	834
State tax loss carryforwards	2,052	1,706
Accrued vacation	1,795	1,819
SERP	1,179	1,177
Deferred compensation	789	855
Restricted stock units	2,960	3,836
Other	5,123	4,905
Valuation allowances	(3,065)	(2,031)
Total deferred tax assets	18,097	25,437
Deferred tax liabilities:		
Property and equipment	18,909	20,262
Amortization	1,119	1,221
Goodwill	1,768	1,878
Pension	1,184	1,102
Other	--	101
Total deferred tax liabilities	22,980	24,564
Total net deferred tax asset (liability)	\$ (4,883)	\$ 873

As of December 31, 2012, the Company has state and foreign net operating loss carryforwards of \$44,311,000 for tax purposes, which will be available to offset future taxable income. If not used, certain of these carryforwards will expire between 2013 and 2027. A significant portion of the valuation allowance for deferred tax assets relates to the future utilization of state and foreign net operating loss carryforwards. Future utilization of these net operating loss carryforwards is evaluated by the Company on a periodic basis and the valuation allowance is adjusted accordingly. In 2012, the valuation allowance on these carryforwards was increased by \$1,040,000 due to uncertainty about whether certain entities will realize their state net operating loss carryforwards. The Company has also determined that the recovery of certain other deferred tax assets is uncertain. The valuation allowance for these deferred tax assets was decreased by \$6,000.

Undistributed earnings of the Company's Canadian subsidiary, Breaker Technology Ltd., are considered to be indefinitely reinvested; accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to Canada. There are no undistributed earnings applicable to Breaker Technology, Ltd. as of December 31, 2012.

The Company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by authorities for years prior to 2009. With few exceptions, the Company is no longer subject to state and local or non-U.S. income tax examinations by authorities for years prior to 2006.

The Company has a liability for unrecognized tax benefits of \$771,000 and \$749,000 (excluding accrued interest and penalties) as of December 31, 2012 and 2011, respectively. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized tax costs of \$82,000 and \$118,000 in 2012 and 2011, respectively, for interest charges related to amounts of unrecognized tax benefits. The net total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate is \$864,000 and \$807,000 at December 31, 2012 and 2011, respectively. The Company does not expect a significant increase or decrease to the total amount of unrecognized tax benefits within the next twelve months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of the beginning and ending unrecognized tax benefits excluding interest and penalties is as follows (in thousands):

	Year Ended December 31		
	2012	2011	2010
Balance, beginning of year	\$ 749	\$ 488	\$ 578
Additions for tax positions related to the current year	5	150	110
Additions for tax positions related to prior years	90	192	75
Reductions due to lapse of statutes of limitations	(73)	(81)	(103)
Decreases related to settlements with tax authorities	--	--	(172)
Balance, end of year	<u>\$ 771</u>	<u>\$ 749</u>	<u>\$ 488</u>

The December 31, 2012 balance of unrecognized tax benefits includes no tax positions for which the ultimate deductibility is highly certain but the timing of such deductibility is uncertain. Accordingly, there is no impact to the deferred tax accounting for certain tax benefits.

15. Contingent Matters

Certain customers have financed purchases of Company products through arrangements in which the Company is contingently liable for customer debt of \$2,091,000 and \$3,537,000 at December 31, 2012 and 2011, respectively. At December 31, 2012, the maximum potential amount of future payments for which the Company would be liable is equal to \$2,091,000. These arrangements also provide that the Company will receive the lender's full security interest in the equipment financed if the Company is required to fulfill its contingent liability under one of these arrangements. The Company has recorded a liability of \$112,000 related to these guarantees at December 31, 2012.

In addition, the Company is contingently liable under letters of credit issued by Wells Fargo totaling \$13,113,000 as of December 31, 2012, including a \$1,600,000 letter of credit issued on behalf of Astec Australia. The outstanding letters of credit expire at various dates through October 2013. As of December 31, 2012, Osborn and Astec Australia are contingently liable for a total of \$3,388,000 and \$1,209,000, respectively, in performance advance payment and retention guarantees. As of December 31, 2012, the maximum potential amount of future payments under these letters of credit and guarantees for which the Company could be liable is \$17,710,000.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2004, the Company received notice from the Environmental Protection Agency that it may be responsible for a portion of the costs incurred in connection with an environmental cleanup in Illinois. The discharge of hazardous materials and associated cleanup relate to activities occurring prior to the Company's acquisition of Barber-Greene in 1986. The Company believes that over 300 other parties have received similar notice. At this time, the Company cannot predict whether the EPA will seek to hold the Company liable for a portion of the cleanup costs or the amount of any such liability. The Company has not recorded a liability with respect to the matter because no estimate of the amount of any such liability can be made at this time.

16. Shareholders' Equity

Under terms of the Company's employee stock option plans, officers and certain other employees were granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option was granted. No additional options can be granted under these plans; however the Company has reserved unissued shares of common stock for exercise of the 17,862 unexercised and outstanding options as of December 31, 2012 under these employee plans. All options granted under these plans vested prior to 2007.

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 annual retainer in cash, common stock, deferred stock or stock options. Options granted under the Non-employee Directors Stock Incentive Plan vest and become fully exercisable immediately. All stock options have a 10-year term. The shares reserved under the 1998 Non-employee Directors Stock Plan total 129,604 as of December 31, 2012 of which 104,339 shares are available for future grants of stock or deferred stock to directors. No additional options can be granted under this plan. The fair value of stock awards granted to non-employee directors totaled \$231,000, \$239,000 and \$189,000 during 2012, 2011 and 2010, respectively.

A summary of the Company's stock option activity and related information for the year ended December 31, 2012 follows:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life</u>	<u>Intrinsic Value</u>
Options outstanding, beginning of year	52,183	\$ 18.79		
Options exercised	(26,468)	\$ 19.43		
Options outstanding, end of year	<u>25,715</u>	<u>\$ 18.13</u>	1.89 Years	\$ 394,000
Options exercisable, end of year	<u>25,715</u>	<u>\$ 18.13</u>	1.89 Years	\$ 394,000

The total intrinsic value of stock options exercised during the years ended December 31, 2012, 2011 and 2010 was \$515,000, \$870,000 and \$1,525,000, respectively. Cash received from options exercised during the years ended December 31, 2012, 2011 and 2010, totaled \$514,000, \$812,000 and \$1,431,000, respectively and is included in the accompanying consolidated statements of cash flows as a financing activity. The excess tax benefit realized from the exercise of these options totaled \$174,000, \$310,000 and \$579,000, respectively for the years ended December 31, 2012, 2011 and 2010. No stock options were granted or vested nor was any stock option expense recorded during the three years ended December 31, 2012. As of December 31, 2012, 2011 and 2010, there were no unrecognized compensation costs related to stock options previously granted.

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 ("RSU's") 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 allowed up to 700,000 shares to be granted to employees. The number of RSU's granted each year was determined based upon the performance of individual subsidiaries and consolidated annual financial performance. Additional RSU's were granted in 2011 based upon cumulative five-year performance. Generally, each award vests at the end of five years from the date of grant, or at the time a recipient retires after reaching age 65, if earlier. No additional RSU's are expected to be granted under the 2006 Incentive Plan. In early 2011, a subsequent plan was formulated under the Company's 2011 Incentive Plan which was approved by the Company's shareholders in their annual meeting held in April 2011. This plan also allows the Company to grant up to 700,000 RSU's to employees and operates in a similar fashion to the 2006 Incentive Plan for each of the five years ending December 31, 2015. The fair value of the RSU's that vested during 2012 and 2011 was \$2,719,000 and \$406,000, respectively. No RSU's vested during 2010. The grant date tax benefit was reduced by \$67,000 upon the vesting of RSUs in 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RSU's granted in 2007 through 2012, RSU's expected to be granted in 2013, and RSU's expected to be granted in 2016 for five-year cumulative performance are as follows:

Actual or Anticipated Grant Date	Performance Period	Original	Forfeitures	Vested	Net	Fair Value Per RSU
March, 2007	2006	71,100	7,979	63,121	--	\$ 38.76
February, 2008	2007	74,800	3,205	7,005	64,590	\$ 38.52
February, 2009	2008	69,200	2,700	6,050	60,450	\$ 22.22
February, 2010	2009	51,000	1,000	4,000	46,000	\$ 24.29
February, 2011	2010	65,000	1,460	5,710	57,830	\$ 34.33
February, 2011	2006-2010	58,495	1,803	5,497	51,195	\$ 34.33
February, 2012	2011	33,331	400	500	32,431	\$ 39.10
February, 2013	2012	22,106	--	--	22,106	\$ 33.36
February, 2016	2011-2016	34,986	--	--	34,986	\$ 33.36
Total		480,018	18,547	91,883	369,588	

Compensation expense of \$1,054,000, \$2,602,000, and \$2,206,000 was recorded in the years ended December 31, 2012, 2011 and 2010, respectively, to reflect the fair value of the original RSU's granted or anticipated to be granted less estimated forfeitures, amortized over the portion of the vesting period occurring during the period. Related income tax benefits of \$387,000, \$848,000 and \$731,000 were recorded in 2012, 2011 and 2010, respectively. The fair value of the 57,092 RSU's expected to be granted in February 2013 and 2016 was based upon the market value of the related stock at December 31, 2012 and will be adjusted to the fair value as of each period end until the actual grant dates. Based upon the fair value and net RSU's shown above, it is anticipated that \$3,646,000 of additional compensation costs will be recognized in future periods through 2021. The weighted average period over which this additional compensation cost will be expensed is 4.6 years. The RSU's did not participate in the Company's dividend paid in 2012.

Changes in restricted stock units during the year ended December 31, 2012 are as follows:

	2012
Unvested restricted stock units, beginning of year	367,254
Restricted stock units granted	33,331
Restricted stock units forfeited	(9,163)
Restricted stock units vested	(78,926)
Unvested restricted stock units, end of year	312,496

The grant date fair value of the restricted stock units granted during 2012, 2011 and 2010 was \$1,303,000, \$4,240,000 and \$1,239,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has adopted an Amended and Restated Shareholder Protection Rights Agreement and declared a distribution of one right (the "Right") for each outstanding share of Company common stock, par value \$0.20 per share (the "Common Stock"). Each Right entitles the registered holder (other than the "Acquiring Person" as defined below) to purchase from the Company one one-hundredth of a share (a "Unit") of Series A Participating Preferred Stock, par value \$1.00 per share (the "Preferred Stock"), at a purchase price of \$72.00 per Unit, subject to adjustment. The Rights currently attach to the certificates representing shares of outstanding Company Common Stock, and no separate Rights certificates will be distributed. The Rights will separate from the Common Stock upon the earlier of ten business days (unless otherwise delayed by the Board) following the: 1) public announcement that a person or group of affiliated or associated persons (the "Acquiring Person") has acquired, obtained the right to acquire, or otherwise obtained beneficial ownership of fifteen percent (15%) or more of the then outstanding shares of Common Stock, or 2) commencement of a tender offer or exchange offer that would result in an Acquiring Person beneficially owning fifteen percent (15%) or more of the then outstanding shares of Common Stock. The Board of Directors may terminate the Rights without any payment to the holders thereof at any time prior to the close of business ten business days following announcement by the Company that a person has become an Acquiring Person. Once the Rights are separated from the Common Stock, then the Rights entitle the holder (other than the Acquiring Person) to purchase shares of Common Stock (rather than Preferred Stock) having a current market value equal to twice the Unit purchase price. The Rights, which do not have voting power and are not entitled to dividends, expire on December 22, 2015. In the event of a merger, consolidation, statutory share exchange or other transaction in which shares of Common Stock are exchanged, each Unit of Preferred Stock will be entitled to receive the per share amount paid in respect of each share of Common Stock.

17. Operations by Industry Segment and Geographic Area

The Company has four reportable segments. These segments are combinations of business units that offer similar products and services. A brief description of each segment is as follows:

Asphalt Group - This segment consists of three business units that design, engineer, 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, thermal fluid storage tanks and concrete plants. 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 seven business units that design, engineer, 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 three business units that design, engineer, 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 business units that design, engineer, manufacture and market a complete line of drilling rigs for the oil and gas, geothermal and water well industries, high pressure diesel pump trailers for fracking and cleaning oil and gas wells and a four-track surface miner. This segment previously included American Augers, Inc., which was sold in November 2012.

All Others - This category consists of the Company's other business units, including Peterson Pacific Corp., Astec Australia Pty Ltd, Astec Insurance Company and the parent company, Astec Industries, Inc., that do not meet the requirements for separate disclosure as an operating segment.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intersegment sales and transfers are valued at prices comparable to those for unrelated parties. For management purposes, the Company does not allocate U.S. federal income taxes or corporate overhead (including interest expense) to its business units. Revenues and expenses disclosed below have been adjusted to reflect American Augers, Inc.'s results as discontinued operations for all periods presented.

Segment information for 2012 (in thousands)

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$ 234,562	\$ 355,428	\$ 158,115	\$ 82,802	\$ 105,366	\$ 936,273
Intersegment revenues	30,697	25,776	16,474	1,688	168	74,803
Interest expense	49	32	3	--	255	339
Depreciation and amortization	4,729	7,381	3,262	2,934	2,629	20,935
Income taxes	811	1,582	(348)	(230)	17,281	19,096
Segment profit (loss)	21,018	34,687	10,721	(2,238)	(30,080)	34,108
Segment assets	382,418	399,832	157,675	83,744	392,675	1,416,344
Capital expenditures	4,430	9,376	3,239	7,137	1,836	26,018

Segment information for 2011 (in thousands)

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$ 260,404	\$ 333,278	\$ 187,988	\$ 37,683	\$ 89,288	\$ 908,641
Intersegment revenues	24,925	25,219	18,629	5,083	--	73,856
Interest expense	14	3	5	--	168	190
Depreciation and amortization	4,268	6,932	2,788	1,566	2,451	18,005
Income taxes	1,401	1,834	1,009	(550)	15,643	19,337
Segment profit (loss)	29,310	31,493	26,485	(7,318)	(38,229)	41,741
Segment assets	370,137	359,931	155,676	134,376	408,903	1,429,023
Capital expenditures	9,172	8,138	6,678	945	11,197	36,130

Segment information for 2010 (in thousands)

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	\$ 226,419	\$ 256,400	\$ 166,436	\$ 25,854	\$ 61,975	\$ 737,084
Intersegment revenues	14,391	24,294	13,471	3,211	--	55,367
Interest expense	84	52	66	--	137	339
Depreciation and amortization	4,176	6,714	2,806	1,492	2,256	17,444
Income taxes	1,489	2,436	993	(481)	12,212	16,649
Segment profit (loss)	28,672	16,578	23,234	(6,382)	(27,579)	34,523
Segment assets	342,813	335,008	137,744	96,577	367,474	1,279,616
Capital expenditures	2,399	4,271	3,951	345	370	11,336

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The totals of segment information for all reportable segments reconciles to consolidated totals as follows (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Sales			
Total external sales for reportable segments	\$ 830,907	\$ 819,353	\$ 675,109
Intersegment sales for reportable segments	74,635	73,856	55,367
Other sales	105,366	89,288	61,975
Elimination of intersegment sales	(74,635)	(73,856)	(55,367)
Total consolidated sales	<u>\$ 936,273</u>	<u>\$ 908,641</u>	<u>\$ 737,084</u>
Net income attributable to controlling interest			
Total profit for reportable segments	\$ 64,188	\$ 79,970	\$ 62,102
Other losses	(30,080)	(38,229)	(27,579)
Net income attributable to non-controlling interest	(161)	(102)	(142)
Elimination of intersegment profit	(519)	(1,946)	(682)
Income (loss) from discontinued operations, net of tax	3,401	225	(1,269)
Gain on disposal of discontinued operations, net of tax	3,378	--	--
Total consolidated net income attributable to controlling interest	<u>\$ 40,207</u>	<u>\$ 39,918</u>	<u>\$ 32,430</u>
Assets			
Total assets for reportable segments	\$ 1,023,669	\$ 1,020,120	\$ 912,142
Other assets	392,675	408,903	367,474
Elimination of intercompany profit in inventory	(4,410)	(3,890)	(1,944)
Elimination of intercompany receivables	(469,254)	(461,721)	(435,980)
Elimination of investment in subsidiaries	(186,556)	(160,988)	(119,562)
Other eliminations	(31,559)	(85,541)	(72,491)
Total consolidated assets	<u>\$ 724,565</u>	<u>\$ 716,883</u>	<u>\$ 649,639</u>
Interest expense			
Total interest expense for reportable segments	\$ 84	\$ 22	\$ 202
Other interest expense	255	168	137
Total consolidated interest expense	<u>\$ 339</u>	<u>\$ 190</u>	<u>\$ 339</u>
Depreciation and amortization			
Total depreciation and amortization for reportable segments	\$ 18,306	\$ 15,554	\$ 15,188
Other depreciation and amortization	2,629	2,451	2,256
Depreciation from discontinued operations	2,113	1,254	1,284
Total consolidated depreciation and amortization	<u>\$ 23,048</u>	<u>\$ 19,259</u>	<u>\$ 18,728</u>
Capital expenditures			
Total capital expenditures for reportable segments	\$ 24,182	\$ 24,933	\$ 10,966
Other capital expenditures	1,836	11,197	370
Total consolidated capital expenditures	<u>\$ 26,018</u>	<u>\$ 36,130</u>	<u>\$ 11,336</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sales into major geographic regions were as follows (in thousands):

	2012	2011	2010
United States	\$ 572,522	\$ 543,527	\$ 462,167
Canada	79,554	82,853	78,165
Australia and Oceania	62,683	48,890	24,561
Africa	60,811	65,472	60,396
South America (excluding Brazil)	38,049	57,616	35,701
Mexico	23,084	9,885	13,801
Other European Countries	20,249	23,653	15,238
Brazil	15,675	11,602	4,763
Russia	14,641	8,494	4,513
Post-Soviet States (excluding Russia)	11,533	12,526	1,973
Other Asian Countries	8,315	7,200	2,385
Central America (excluding Mexico)	6,843	4,156	1,140
Middle East	6,705	18,215	24,151
China	6,687	2,923	414
India	4,648	4,476	1,318
West Indies	2,765	5,461	5,693
Japan and Korea	1,509	1,672	702
Other	--	20	3
Total foreign	363,751	365,114	274,917
Total consolidated sales	\$ 936,273	\$ 908,641	\$ 737,084

Long-lived assets by major geographic region are as follows (in thousands):

	December 31	
	2012	2011
United States	\$ 157,344	\$ 165,573
Germany	1,538	1,477
Australia	9,630	9,520
South Africa	8,973	7,923
Brazil	1,234	--
Canada	4,120	3,525
Total foreign	25,495	22,445
Total	\$ 182,839	\$ 188,018

18. Accumulated Other Comprehensive Income

The balance of related after-tax components comprising accumulated other comprehensive income is summarized below (in thousands):

	December 31	
	2012	2011
Foreign currency translation adjustment	\$ 4,679	\$ 4,851
Unrecognized pension and post-retirement benefit cost, net of tax of \$2,471 and \$2,482, respectively	(4,177)	(4,010)
Accumulated other comprehensive income	\$ 502	\$ 841

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Other Income (Expense) - Net

Other income (expense), net from continuing operations consists of the following (in thousands):

	Year Ended December 31		
	2012	2011	2010
Investment income	\$ 116	\$ 27	\$ 162
Licensing fees	1,211	449	230
Other	456	606	240
Total	\$ 1,783	\$ 1,082	\$ 632

20. Business Combinations

On August 10, 2011, the Company purchased substantially all of the assets of Protec Technology and Machinery GmbH ("Protec"), a German corporation; Construction Machinery GmbH ("Construction Machinery"), a German corporation; and Protec Technology Ltd. ("Protec, Ltd."), a Hong Kong corporation, for \$3,000,000. The Company formed a new subsidiary, Astec Mobile Machinery GmbH, located in Hameln, Germany, to operate the acquired businesses. The new Company designs, manufactures and markets asphalt rollers, screeds and a road widener attachment and distributes products produced by other Company subsidiaries, primarily Roadtec, Inc.

On October 1, 2011, the Company acquired the GEFCO division of Blue Tee Corp. for \$30,407,000. The Company formed a new subsidiary, GEFCO, Inc., to operate the acquired business. This purchase resulted in the recognition of \$3,877,000 of amortizable intangible assets which consist of trade names (15 year useful life) and customer relationships (8 year useful life). The effective date of the purchase was October 1, 2011, and the results of GEFCO Inc.'s operations have been included in the Company's consolidated financial statements since that date. During January 2012, the purchase price allocation was finalized and funds previously held in escrow were distributed.

GEFCO (formerly known as George E. Failing Company) was established in 1931 and was a leading manufacturer of portable drilling rigs and related equipment for the water well, environmental, groundwater monitoring, construction, mining and shallow oil & gas exploration and production industries. GEFCO, Inc. will continue to manufacture Failing, SpeedStar and King Oil Tools equipment from its Enid, Oklahoma facilities.

The revenue and pre-tax income of Protec, Protec, Ltd., Construction Machinery and GEFCO were not significant in relation to the Company's 2011 financial statements and would not have been significant on a pro forma basis to any earlier periods.

During the second quarter of 2012, the Company funded the first \$5,000,000 of an expected \$12,000,000 investment in Astec Agregados E Mineracao Do Brasil LTDA ("Astec Brazil") located in Vespasiano, Minas Gerais, Brazil, a consolidated subsidiary of the Company. When fully funded by both the Company and a minority Brazil based shareholder, the Company anticipates a 75% ownership in Astec Brazil. To date, Astec Brazil has had only limited revenues and start-up related expenditures, but plans to construct a manufacturing facility in Brazil during 2013 with an expected cost of approximately \$20,000,000. Astec Brazil plans to fund the acquisition costs of the plant and equipment with borrowings from a local Brazilian bank. The Company expects to increase its international market penetration in Brazil and Latin American countries with the aggregate and mining segment's product lines to be produced in this facility.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Discontinued Operations

In October 2012, the Company entered into an agreement to sell its American Augers, Inc. ("Augers") subsidiary, as well as certain assets related to the Trenchor large trencher product line of Astec Underground, Inc., to The Charles Machine Works, Inc. of Perry, Oklahoma. Augers and the Trenchor large trencher product line were part of the Company's Underground Group. The sale of Augers included substantially all the assets and liabilities of Augers and was completed on November 30, 2012 for \$42,940,000, net of cash included in the sale and subject to closing adjustments. The Company retained the Augers vertical oil and gas drill rig product line and will relocate it to the GEFCO, Inc. subsidiary located in Enid, Oklahoma. The sale of the Trenchor product line was immaterial to the transaction and is included in the Company's consolidated financial statements in continuing operations. This divestiture, as well as the sale of the small utility trencher and drill line of products to Toro earlier in 2012, is part of the Company's strategy to exit the cyclical underground sector.

The Company has calculated the post-closing adjustments to the sale price and has recorded the resulting \$288,000 purchase price difference in other accrued liabilities in the December 31, 2012 consolidated balance sheet. The post closing adjustment is subject to review and potential negotiation with the seller.

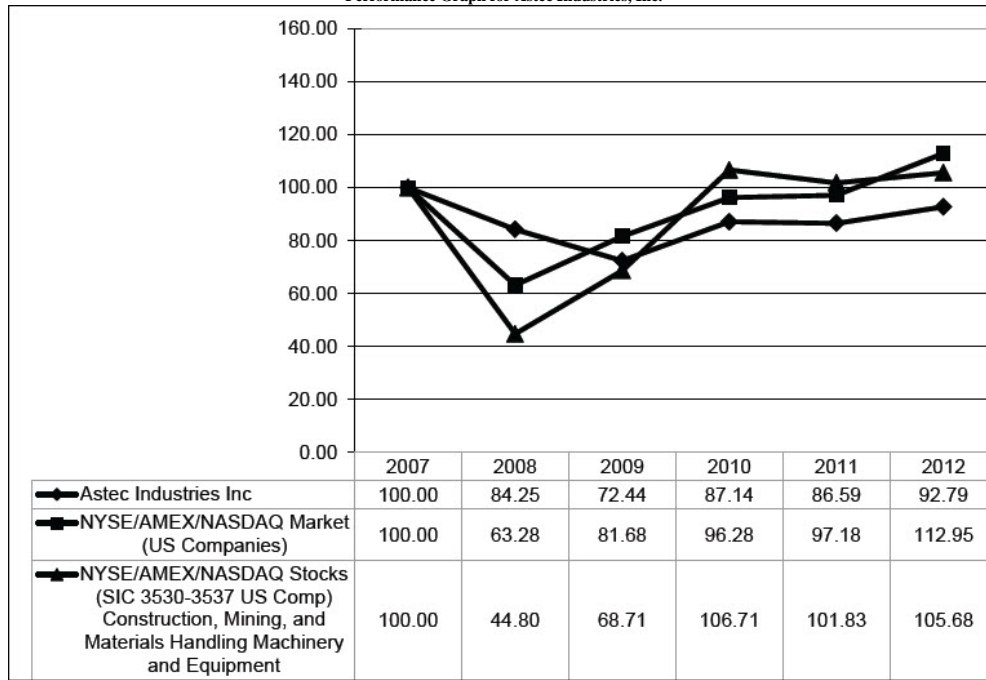
The results of operations and the gain on the sale of Augers are presented as discontinued operations for all periods presented. Summarized financial information for Augers is below (in thousands):

	Year Ended December 31		
	2012	2011	2010
Revenues	\$ 53,619	\$ 47,088	\$ 34,251
Discontinued operations			
Operating income (loss) before tax	\$ 5,218	\$ 169	\$ (1,787)
Income tax provision (benefit)	1,817	(56)	(518)
Income (loss) from operations	3,401	225	(1,269)
Gain on sale of subsidiary			
Gain on sale of subsidiary before tax	5,357	--	--
Income tax provision	1,979	--	--
Gain on sale of subsidiary	3,378	--	--
Income (loss) from discontinued operations	\$ 6,779	\$ 225	\$ (1,269)

The carrying amounts of the major classes of assets and liabilities disposed on November 30, 2012 were as follows (in thousands):

	2012
Assets	
Cash	\$ 636
Receivables	5,334
Inventories	26,568
Prepaid and other assets	430
Property and equipment, net	13,500
Other assets	465
Total assets	46,933
Liabilities:	
Accounts payable	2,518
Other liabilities	6,484
Total liabilities	9,002
Net assets disposed	\$ 37,931

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of \$100
Performance Graph for Astec Industries, Inc.



Notes:

- A. Data complete through last fiscal year.
- B. Corporate Performance Graph with peer group uses peer group only performance(excludes only company).
- C. Peer group indices use beginning of period market capitalization weighting.
- D. Calculated (or Derived) based from CRSP NYSE/AMEX/NASDAQ Stock Market (US Companies) Center for Research in Security Prices (CRSP®), Graduate School of Business, The University of Chicago.
- E. The graph assumes \$100 invested at the closing price of the Company's common stock on December 31, 2007 and assumes that all dividends were invested on the date paid.

2012 Board of Directors

J. Don Brock, PhD

Chairman of the Board and Chief Executive Officer of Astec Industries, Inc.

W. Norman Smith

President and Chief Operating Officer of Astec Industries, Inc.

James B. Baker

Managing Partner of River Associates Investments, LLC

Phillip E. Casey

Former Chairman of the Board of Directors of Gerdau Ameristeel Corporation

William G. Dorey

Former CEO and President of Granite Construction Incorporated

Daniel K. Frierson

Chairman of the Board and Chief Executive Officer of The Dixie Group, Inc.

William D. Gehl

Former Chairman of the Board and Chief Executive Officer of Gehl Company

William B. Sansom

Chairman and Chief Executive Officer of The H.T. Hackney Co.

Glen E. Tellock

Chairman, President and Chief Executive Officer of The Manitowoc Company, Inc.

COMMITTEES

Executive Committee:

J. Don Brock, PhD
Daniel K. Frierson
W. Norman Smith

Nominating and Corporate Governance Committee:

William G. Dorey
Daniel K. Frierson
William B. Sansom
Glen E. Tellock

Audit Committee:

James B. Baker
Phillip E. Casey
William D. Gehl
William B. Sansom
Glen E. Tellock

Compensation Committee:

James B. Baker
Phillip E. Casey
William G. Dorey
William D. Gehl

CORPORATE EXECUTIVE OFFICERS

J. Don Brock, PhD
Chairman of the Board and CEO

Robin A. Leffew
Corporate Controller

Benjamin G. Brock
Group Vice President
Asphalt Group

W. Norman Smith
President and Chief Operating
Officer

Thomas R. Campbell
Group Vice President
Mobile Asphalt Paving
and Underground Groups

Richard J. Dorris
Group Vice President
Energy Group

David C. Silvious, CPA
Vice President,
CFO and Treasurer

Richard A. Patek
Group Vice President
Aggregate and Mining Group

Stephen C. Anderson
V.P. of Administration,
Corporate Secretary and
Director of Investor Relations

Joseph P. Vig
Group Vice President
AggReCon Group

SUBSIDIARY OFFICERS

Michael A. Bremmer
President
CEI Enterprises, Inc.

Chris E. Colwell
President
Carlson Paving Products, Inc.

Matthew B. Haven
President
Telsmith, Inc.

Benjamin G. Brock
President
Astec, Inc.

Larry R. Cumming
President
Peterson Pacific Corp.

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

Thomas R. Campbell
Managing Director
Astec Mobile Machinery GmbH
and
President
Astec Underground, Inc.

Richard J. Dorris
President
Heatec, Inc.

Jeffrey L. Richmond
President
Roadtec, Inc.

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

Jeffery J. Elliott
President
Johnson Crushers International, Inc.

David H. Smale
General Manager
Astec Australia Pty Ltd

Timothy D. Gonigam
President
Astec Mobile Screens, Inc.

Joseph P. Vig
President
Kolberg-Pioneer, Inc.

D. Aaron Harmon
President
GEFCO, Inc.

OTHER INFORMATION

Transfer Agent

Computershare
480 Washington Blvd., Jersey City, NJ 07310
800.617.6437, www.bnymellon.com/shareowner/equityaccess

**Stock Exchange
Auditors
General Counsel
and Litigation
Securities Counsel
Investor Relations
Corporate Office**

NASDAQ, National Market - ASTE
Ernst & Young LLP, Chattanooga, TN
Chambliss, Bahner & Stophel, P.C., Chattanooga, TN

Alston & Bird LLP, Atlanta, GA
Stephen C. Anderson, Director, 423.553.5934
Astec Industries, Inc., 1725 Shepherd Road, Chattanooga, TN 37421
Ph 423.899.5898, Fax 423.899.4456, www.astecindustries.com

The form 10-K, as filed with the Securities and Exchange Commission, may be obtained at no cost by any shareholder upon written request to Astec Industries, Inc., Attention Investor Relations. The Company's Code of Conduct is posted at www.astecindustries.com.
The Annual Meeting will be held on April 25, 2013 at 10:00 A.M., EST in the Training Center at Astec, Inc. located at 4101 Jerome Avenue, Chattanooga, TN 37407.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Astec Industries, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASTEC INDUSTRIES, INC.
(Registrant)

BY: /s/ J. Don Brock
J. Don Brock, Chairman of
the Board and Chief Executive Officer

Date: March 1, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
<u>/s/ J. Don Brock</u> J. Don Brock	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 1, 2013
<u>/s/ David C. Silvious</u> David C. Silvious	Chief Financial Officer, Vice President and Treasurer (Principal Financial and Accounting Officer)	March 1, 2013
<u>/s/ W. Norman Smith</u> W. Norman Smith	Director	February 28, 2013
<u>/s/ William B. Sansom</u> William B. Sansom	Director	February 28, 2013
<u>/s/ Phillip E. Casey</u> Phillip E. Casey	Director	February 28, 2013
<u>/s/ Glen E. Tellock</u> Glen E. Tellock	Director	February 28, 2013
<u>/s/ William D. Gehl</u> William D. Gehl	Director	February 28, 2013
<u>/s/ Daniel K. Frierson</u> Daniel K. Frierson	Director	February 28, 2013
<u>/s/ William G. Dorey</u> William G. Dorey	Director	February 28, 2013
<u>/s/ James B. Baker</u> James B. Baker	Director	February 28, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS FILED WITH ANNUAL REPORT
ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

ASTEC INDUSTRIES, INC.
1725 Shepherd Road
Chattanooga, Tennessee 37421

ASTEC INDUSTRIES, INC.
FORM 10-K
INDEX TO EXHIBITS

Exhibit Number	Description
Exhibit 10.19	Stock Purchase Agreement, dated as of October 31, 2012, among Astec Industries, Inc., American Augers, Inc. and The Charles Machine Works, Inc.
Exhibit 10.20	Asset Purchase Agreement, dated as of October 31, 2012, among Astec Industries, Inc. and The Charles Machine Works, Inc.
Exhibit 21	Subsidiaries of the Registrant.
Exhibit 23	Consent of Independent Registered Public Accounting Firm.
Exhibit 31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certification pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

STOCK PURCHASE AGREEMENT

among

ASTEC INDUSTRIES, INC.

AMERICAN AUGERS, INC.

and

THE CHARLES MACHINE WORKS, INC.

dated as of

October 31, 2012

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STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this “**Agreement**”), dated as of October 31, 2012, is entered into by and among ASTEC INDUSTRIES, INC., a Tennessee corporation (“**Seller**”), AMERICAN AUGERS, INC., a Delaware corporation (the “**Company**”), and THE CHARLES MACHINE WORKS, INC., an Oklahoma corporation (“**Buyer**”).

RECITALS

WHEREAS, Seller owns all of the issued and outstanding shares of capital stock (the “**Shares**”) of the Company (the “**Company**”); and

WHEREAS, Seller wishes to sell to Buyer, and Buyer wishes to purchase from Seller, the Shares, subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

The following terms have the meanings specified or referred to in this [Article I](#):

“**Accounting Referee**” has the meaning set forth in [Section 6.01\(c\)](#).

“**Action**” means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, notice of violation, proceeding, litigation, citation, summons, subpoena or investigation of any nature, civil, criminal, administrative, regulatory or otherwise, whether at law or in equity.

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“**Affiliated Group**” means any affiliated group within the meaning of Code §1504(a) or any similar group defined under a similar provision of state, local, or non-U.S. law.

“**Agreement**” has the meaning set forth in the preamble.

“**Allocation Schedule**” has the meaning set forth in [Section 6.04\(b\)](#).

“**Annual Financial Statements**” has the meaning set forth in [Section 3.06](#).

“**Balance Sheet**” has the meaning set forth in [Section 3.06](#).

“**Balance Sheet Date**” has the meaning set forth in [Section 3.06](#).

“**Benefit Plan**” has the meaning set forth in [0](#).

“**Business**” means the manufacturing, distribution, marketing, sale and servicing of auger boring machines, maxi-rig directional drills, mid-sized directional drills, mud pumps and cleaning systems and related tooling and accessories, but not including the Excluded Business.

“**Business Day**” means any day except Saturday, Sunday or any other day on which commercial banks located in Oklahoma City, Oklahoma are authorized or required by Law to be closed for business.

“**Buyer**” has the meaning set forth in the preamble.

“**Buyer Indemnitees**” has the meaning set forth in [Section 8.02](#).

“**Buyer's Accountants**” means Grant Thornton LLP.

“**Closing**” has the meaning set forth in [Section 2.05](#).

“**Closing Date**” has the meaning set forth in [Section 2.05](#).

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Common Stock**” has the meaning set forth in [Section 3.03\(a\)](#).

“**Company**” has the meaning set forth in the recitals.

“**Company Debt**” means any (a) Liability of the Company (i) for outstanding amounts relating to borrowed money (including the current portion thereof and any accrued interest), (ii) for the payment of money relating to leases that are required to be classified as capitalized lease obligations in accordance with GAAP, in each case, as of the close of business on the day immediately preceding the Closing Date, (iii) issued or assumed as the deferred purchase price of property and all conditional sale obligations, or (iv) for pension payments and (b) all obligations of the type referred to in clause (a) of any Persons the payment for which the Company is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise, including guarantees of such obligations, and (c) all obligations of the type referred to in clauses (a) and (b) of other Persons secured by (or for which the holder of such obligations has an existing right, contingent or otherwise, to be secured by) any Encumbrance on any property or asset of the Company (whether or not such obligation is assumed by the Company).

“**Contracts**” means all contracts, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements, whether written or oral.

“**Direct Claim**” has the meaning set forth in [Section 8.05\(c\)](#).

“**Disputed Amounts**” has the meaning set forth in [Section 2.04\(b\)\(iii\)](#).

“**Dollars or \$**” means the lawful currency of the United States.

“**Encumbrance**” means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, preference, priority, security interest, mortgage, easement, limitation, commitment, encroachment, right of way, right of first refusal, or restriction of any kind or nature, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

“**Environmental Claim**” means any Action, Governmental Order, lien, fine, penalty, or, as to each, any settlement or judgment arising therefrom, by or from any Person alleging liability of whatever kind or nature (including liability or responsibility for the costs of enforcement proceedings, investigations, cleanup, governmental response, removal or remediation, natural resources damages, property damages, personal injuries, medical monitoring, penalties, contribution, indemnification and injunctive relief) arising out of, based on or resulting from: (a) the presence, Release of, or exposure to, any Hazardous Materials; or (b) any actual or alleged non-compliance with any Environmental Law or term or condition of any Environmental Permit.

“**Environmental Law**” means any applicable Law, and any Governmental Order or binding agreement with any Governmental Authority: (a) relating to pollution (or the cleanup thereof) or the protection, investigation, restoration, or reclamation of natural resources, endangered or threatened species, human health or safety, or the environment (including ambient air, soil, surface water or groundwater, or subsurface strata); or (b) concerning the Release, presence of, exposure to, or the management, manufacture, use, containment, storage, recycling, reclamation, reuse, treatment, generation, discharge, transportation, processing, production, disposal or remediation of any Hazardous Materials. The term “Environmental Law” includes, without limitation, the following (including their implementing regulations and any state analogs): the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§ 9601 et seq.; the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§ 6901 et seq.; the Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977, 33 U.S.C. §§ 1251 et seq.; the Toxic Substances Control Act of 1976, as amended, 15 U.S.C. §§ 2601 et seq.; the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. §§ 11001 et seq.; the Clean Air Act of 1966, as amended by the Clean Air Act Amendments of 1990, 42 U.S.C. §§ 7401 et seq.; and the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. §§ 651 et seq.

“**Environmental Notice**” means any written directive, notice of violation or infraction, or notice respecting any Environmental Claim relating to actual or alleged non-compliance with any Environmental Law or any term or condition of any Environmental Permit.

“**Environmental Permit**” means any Permit, letter, clearance, consent, waiver, closure, exemption, decision or other action required under or issued, granted, given, authorized by or made pursuant to Environmental Law.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

“**Estimated Purchase Price**” has the meaning set forth in [Section 2.02](#).

“**Excluded Business**” has the meaning set forth in [Section 2.06](#).

“**Final Balance Sheet**” has the meaning set forth in [Section 2.04\(a\)](#).

“**Final Purchase Price**” has the meaning set forth in [Section 2.04\(a\)](#).

“**Financial Statements**” has the meaning set forth in [Section 3.06](#).

“**Fundamental Representation**” has the meaning set forth in [Section 8.01](#).

“**GAAP**” means United States generally accepted accounting principles in effect from time to time.

“**Governmental Authority**” means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

“**Governmental Order**” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“**Hazardous Materials**” means: (a) any material, substance, chemical, waste, product, derivative, compound, mixture, solid, liquid, mineral or gas, in each case, whether naturally occurring or manmade, that is hazardous, acutely hazardous, toxic, or words of similar import or regulatory effect under Environmental Laws; and (b) any petroleum or petroleum-derived products, radon, radioactive materials or wastes, asbestos in any form, lead or lead-containing materials, urea formaldehyde foam insulation, and polychlorinated biphenyls.

“**Indemnified Party**” has the meaning set forth in [Section 8.04](#).

“**Indemnifying Party**” has the meaning set forth in [Section 8.04](#).

“**Independent Accountants**” has the meaning set forth in [Section 2.04\(b\)](#).

“**Intellectual Property**” means any and all of the following in any jurisdiction throughout the world: (a) trademarks and service marks, including all applications and registrations and the goodwill connected with the use of and symbolized by the foregoing; (b) copyrights, including all applications and registrations, and works of authorship, whether or not copyrightable; (c) trade secrets and confidential know-how; (d) patents and patent applications; (e) websites and internet domain name registrations; and (f) all other intellectual property and industrial property rights and assets, and all rights, interests and protections that are associated with, similar to, or required for the exercise of, any of the foregoing.

“**Intellectual Property Licenses**” means all licenses, sublicenses and other agreements by or through which other Persons, including Seller’s Affiliates, grant Seller exclusive or non-exclusive rights or interests in or to any Intellectual Property that is used exclusively in connection with the Business.

“**Intellectual Property Registrations**” means all Intellectual Property related to the Business that is subject to any issuance, registration, application or other filing by, to or with any Governmental Authority or authorized private registrar in any jurisdiction, including registered trademarks, domain names, and copyrights, issued and reissued patents and pending applications for any of the foregoing.

“**Interim Balance Sheet**” has the meaning set forth in [Section 3.06](#).

“**Interim Balance Sheet Date**” has the meaning set forth in [Section 3.06](#).

“**Interim Financial Statements**” has the meaning set forth in [Section 3.06](#).

“**Inventory**” shall mean all of the inventory owned by the Company, whether located at the Company’s business premises, in transit, or located elsewhere, including finished goods and consigned goods, work in process, and raw materials.

“**Knowledge of Seller or Seller’s Knowledge**” or any other similar knowledge qualification, means the actual knowledge of those Persons listed on [Schedule 1.01\(a\)](#) and the knowledge such Persons would acquire after a reasonably diligent inquiry into the fact or matter in question.

“**Known Actions**” has the meaning set forth in [Section 3.16\(a\)](#).

“**Known Judgments**” has the meaning set forth in [Section 3.16\(b\)](#).

“**Law**” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement or rule of law of any Governmental Authority.

“**Liabilities**” has the meaning set forth in [Section 3.07](#).

“**Losses**” means actual out-of-pocket losses, damages of any kind, awards, losses, liabilities, judgments, obligations, assessments, fines, sanctions, penalties, charges, costs, expenses, payments, all interest thereon (including court costs, costs of defense, and reasonable attorneys’ fees, accountants and other professional advisors) and all amounts paid incident to any compromise or settlement of any claim, lawsuit or arbitration.

“**Material Adverse Effect**” means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the business, results of operations, prospects, condition (financial or otherwise) or assets of the Company, or (b) the ability of Seller to consummate the transactions contemplated hereby.

“**Material Contracts**” has the meaning set forth in [Section 3.09\(a\)](#).

“**October Balance Sheet**” has the meaning set forth in [Section 2.02](#).

“**Permits**” means all permits, licenses, franchises, approvals, authorizations, registrations, certificates, variances and similar rights obtained, or required to be obtained, from Governmental Authorities.

“**Permitted Encumbrances**” has the meaning set forth in [Section 3.10\(a\)](#).

“**Person**” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“**Post-Closing Adjustment**” has the meaning set forth in [Section 2.04\(a\)](#).

“**Post-Closing Tax Period**” means any taxable period beginning after the Closing Date and, with respect to any taxable period beginning before and ending after the Closing Date, the portion of such taxable period beginning after the Closing Date.

“**Post-Closing Taxes**” means Taxes of the Company for any Post-Closing Tax Period.

“**Pre-Closing Tax Period**” means any taxable period ending on or before the Closing Date and, with respect to any taxable period beginning before and ending after the Closing Date, the portion of such taxable period ending on and including the Closing Date.

“**Pre-Closing Taxes**” means Taxes of the Company for any Pre-Closing Tax Period.

“**Purchase Price**” has the meaning set forth in [Section 2.02](#).

“**Purchase Price Formula**” has the meaning set forth in [Section 2.02](#).

“**Real Property**” means the real property owned, leased or subleased by the Company, together with all buildings, structures and facilities located thereon.

“**Release**” means any actual or threatened release, spilling, leaking, emitting, discharging, dumping, disposing or allowing to escape or migrate into or through the environment (including, without limitation, ambient air (indoor or outdoor), surface water, groundwater, land surface or subsurface strata or within any structure, facility or fixture).

“**Representative**” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

“**Sale**” has the meaning set forth in [Section 5.13](#).

“**Section 338(h)(10) Election**” has the meaning set forth in [Section 6.04\(a\)](#).

“**Seller**” has the meaning set forth in the preamble.

“**Seller Indemnitees**” has the meaning set forth in [Section 8.03](#).

“**Seller Release**” means an agreement executed and delivered by Seller at the Closing releasing Buyer and the Company from any Action Seller may have resulting from Seller’s (i) status as a holder of equity interests in the Company or (ii) arising prior to the Closing with respect to any employment, service, consulting or other similar agreement entered into by Seller with the Company.

“**Seller’s Accountants**” means Ernst & Young, LLP.

“**Shares**” has the meaning set forth in the recitals.

“**Straddle Period**” has the meaning set forth in [Section 6.03](#).

“**Taxes**” means all federal, state, local, foreign and other income, gross receipts, sales, use, production, ad valorem, transfer, business or commercial activity, capital stock, franchise, registration, value added, alternative or add-on minimum, profits, license, lease, service, use, withholding, payroll, employment, social security (or similar), unemployment, disability, estimated, excise, severance, environmental (including taxes under Code § 59A), stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, and specifically including without limitation, any amounts payable under the Foreign Account Tax Compliance Act, together with any interest, additions or penalties with respect thereto, whether disputed or not, and any interest in respect of such additions or penalties.

“**Tax Claim**” has the meaning set forth in [Section 6.05](#).

“**Tax Return**” means any return, declaration, report, claim for refund, information return or statement or other document required to be filed with respect to Taxes or as required by the Foreign Account Tax Compliance Act, including any schedule or attachment thereto, and including any amendment thereof.

“**Third Party Claim**” has the meaning set forth in [Section 8.05\(a\)](#).

“**Top Customer**” has the meaning set forth in [Section 3.25\(a\)](#).

“**Top Supplier**” has the meaning set forth in [Section 3.25\(b\)](#).

“**Transaction Documents**” means this Agreement, and any other document, instrument, or agreement to be entered into by any of the parties in connection with the transactions contemplated by this Agreement.

ARTICLE II

PURCHASE AND SALE

Section 2.01 Purchase and Sale

Subject to the terms and conditions set forth herein, at the Closing, Seller shall sell to Buyer, and Buyer shall purchase from Seller, the Shares, free and clear of all Encumbrances, for the consideration specified in [Section 2.02](#).

Section 2.02 Purchase Price

The aggregate purchase price for the Shares shall equal the amount determined pursuant to the following formula (the “**Purchase Price Formula**”): (i) the net book value of the assets of the Company that are related to the Business, determined in accordance with GAAP, less (ii) accounts payable of the Company that are related to the Business, less (iii) accrued warranty expense related to the Business, less (iv) other accrued items related to the Business including customer deposits, vacation pay, sales and use tax, and sales commissions, plus (v) \$6,000,000.00, all determined as of the Closing Date (the “**Purchase Price**”) and subject to the post-closing adjustment pursuant to [Section 2.04](#) hereof. An illustration of how the Purchase Price shall be calculated is reflected on [Schedule 2.02](#), which shows the calculation as of September 30, 2012 which would have resulted in a Purchase Price of \$46,787,288. The Purchase Price shall be estimated at the Closing (the “**Estimated Purchase Price**”) based on the Company’s balance sheet as of October 31, 2012 (the “**October Balance Sheet**”) using the Purchase Price Formula, and shall be adjusted subsequent to Closing pursuant to [Section 2.04](#). The October Balance Sheet shall be prepared using the same accounting methods, practices, principles, policies and procedures that were used in the preparation of the Interim Balance Sheet. The Estimated Purchase Price shall be determined without taking into account (i) any amounts reflected on the October Balance Sheet as “Advances from Corporate,” “Intercompany Payables,” or “Intercompany Receivables,” which amounts shall be satisfied at or prior to Closing pursuant to Section 2.07 of this Agreement. In the event that a Section 338(h)(10) election is made, the parties agree to allocate the Purchase Price for tax purposes as provided in [Section 6.04\(b\)](#).

Section 2.03 Transactions to be Effected at the Closing

(a) At the Closing, Buyer shall deliver to Seller:

(i) The Estimated Purchase Price by wire transfer of immediately available funds to an account of Seller designated in writing by Seller to Buyer no later than two (2) Business Days prior to the Closing Date; and

(ii) the Transaction Documents and all other agreements, documents, instruments or certificates required to be delivered by Buyer at or prior to the Closing pursuant to [Section 7.02](#) of this Agreement.

(b) At the Closing, Seller shall deliver to Buyer:

(i) stock certificates evidencing the Shares, free and clear of all Encumbrances, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank, with all required stock transfer tax stamps affixed thereto; and

(ii) the Transaction Documents and all other agreements, documents, instruments or certificates required to be delivered by Seller at or prior to the Closing pursuant to [Section 7.01](#) of this Agreement.

Section 2.04 Post-Closing Adjustment

(a) **Post-Closing Adjustment.**

(i) Within 45 days after the Closing Date, Seller shall prepare and deliver to Buyer a balance sheet of the Company as of the Closing Date (the “**Final Balance Sheet**”) and a final calculation of the Purchase Price based on the Final Balance Sheet (the “**Final Purchase Price**”). The Final Balance Sheet shall be prepared using the same accounting methods, practices, principles, policies and procedures that were used in the preparation of the Interim Balance Sheet and the October Balance Sheet. The Final Purchase Price shall be determined using the Purchase Price Formula and in the same manner as the Estimated Purchase Price was determined. In connection with the preparation of the Final Balance Sheet, the parties, through their respective representatives, shall perform a physical count of the Inventory in an agreed upon manner to determine the net book value of the Inventory to be reflected on the Final Balance Sheet. Buyer shall provide such cooperation to Seller as may be reasonably required to complete the Final Balance Sheet which may include access to the Company’s employees and books and records in a manner that will not unreasonably interfere with the Company’s business.

(ii) The post-closing purchase price adjustment shall be in an amount equal to the Final Purchase Price minus the Estimated Purchase Price (the “**Post-Closing Adjustment**”). If the Post-Closing Adjustment is a positive number, Buyer shall pay to Seller an amount equal to the Post-Closing Adjustment. If the Post-Closing Adjustment is a negative number, Seller shall pay to Buyer an amount equal to the Post-Closing Adjustment.

(b) **Examination and Review.**

(i) **Examination.** After receipt of the Final Balance Sheet, Buyer shall have 45 days (the “**Review Period**”) to review the Final Balance Sheet and Seller’s calculation of the Final Purchase Price. During the Review Period, Buyer and Buyer’s Accountants shall have full access to the books and records of the Company and the personnel of, and work papers prepared by, Seller and/or Seller’s

Accountants, to the extent that they relate to the Final Balance Sheet and the calculation of the Final Purchase Price, as Buyer may reasonably request for the purpose of reviewing the Final Balance Sheet and to prepare a Statement of Objections (defined below).

(ii) **Objection.** On or prior to the last day of the Review Period, Buyer may object to the Final Balance Sheet and the Final Purchase Price by delivering to Seller a written statement setting forth Buyer's objections in reasonable detail, indicating each disputed item or amount and the basis for Buyer's disagreement therewith (the "**Statement of Objections**"). If Buyer fails to deliver the Statement of Objections before the expiration of the Review Period, the Final Balance Sheet and the Final Purchase Price shall be deemed to have been accepted by Buyer. If Buyer delivers the Statement of Objections before the expiration of the Review Period, Buyer and Seller shall negotiate in good faith to resolve such objections within 30 days after the delivery of the Statement of Objections (the "**Resolution Period**"), and, if the same are so resolved within the Resolution Period, the Final Balance Sheet and the Final Purchase Price with such changes as may have been previously agreed in writing by Buyer and Seller, shall be final and binding.

(iii) **Resolution of Disputes.** If Seller and Buyer fail to reach an agreement with respect to all of the matters set forth in the Statement of Objections before expiration of the Resolution Period, then any amounts remaining in dispute ("**Disputed Amounts**") and any amounts not so disputed, the "**Undisputed Amounts**") shall be submitted for resolution to an independent regional or national accounting firm agreed upon by the parties (the "**Independent Accountants**") who, acting as experts and not arbitrators, shall resolve the Disputed Amounts only and make any adjustments to the Final Balance Sheet and the Final Purchase Price utilizing the same accounting methods as were used in the preparation of the October Balance Sheet and the determination of the Estimated Purchase Price. The parties hereto agree that all adjustments shall be made without regard to materiality. The Independent Accountants shall only decide the specific items under dispute by the parties and their decision for each Disputed Amount must be within the range of values assigned to each such item in the Final Balance Sheet and the Statement of Objections, respectively.

(iv) **Fees of the Independent Accountants.** Seller and Buyer shall each pay one-half (1/2) of the fees and expenses of the Independent Accountants.

(v) **Determination by Independent Accountants.** The Independent Accountants shall make a determination as soon as practicable within 30 days (or such other time as the parties hereto shall agree in writing) after their engagement, and their resolution of the Disputed Amounts and their adjustments to the Final Balance Sheet and/or the Final Purchase Price shall be conclusive and binding upon the parties hereto.

(vi) **Payments of Post-Closing Adjustment.** Except as otherwise provided herein, any payment of the Post-Closing Adjustment shall (A) be due (x) within five Business Days of acceptance of the Final Balance Sheet and the Final Purchase Price or (y) if there are Disputed Amounts, then within five (5) Business Days of the resolution described in clause (v) above; and (B) be paid by wire transfer of immediately available funds to such account as is directed by Buyer or Seller, as the case may be.

(c) **Adjustments for Tax Purposes.** Any payments made pursuant to [Section 2.04](#) shall be treated as an adjustment to the Purchase Price by the parties for Tax purposes, unless otherwise required by Law.

Section 2.05 Closing

. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the "**Closing**") shall take place at a time and place agreed upon by the parties, on the second Business Day after all of the conditions to Closing set forth in [Article VII](#) are either satisfied or waived (other than conditions which, by their nature, are to be satisfied on the Closing Date), or at such other time, date or place as Seller and Buyer may mutually agree upon in writing. The date on which the Closing is to occur is herein referred to as the "**Closing Date**".

Section 2.06 Excluded Business

. Prior to Closing, Seller shall cause the Company to transfer to an Affiliate all finished goods, work in process, accounts receivable, raw materials and intellectual property used solely in connection with or arising from the Company's production and sale of vertical directional drill systems (the "**Excluded Business**"), and such Affiliate shall assume all products liability, warranty liability and liability for customer deposits with respect to the Excluded Business.

Section 2.07 Intercompany Receivables and Payables

. All amounts owing by Seller or its Affiliates to the Company shall be satisfied at or prior to Closing. All amounts owing by the Company to Seller (including those reflected on the Interim Balance Sheet as "Advances from Corporate" and "Intercompany Payables") shall be contributed to the capital of the Company at closing and the Company shall have no further obligation with respect to such amounts. All amounts owing by the Company to other affiliates of the Company shall be assumed by Seller and contributed to the capital of the Company at closing. All Company Debt shall be satisfied by Seller at or prior to the Closing Date.

Section 2.08 Mud Pump and Cleaning Systems

. The assets of the Company include its mud pump and cleaning systems technology and products. It is the intent and agreement of the parties that the currently existing technology related to the mud pump and cleaning systems will be shared and that the Company will have exclusive use of it in the HDD/utility market and that Seller or an Affiliate of Seller will have exclusive use of it in the oil and gas market, but that neither will employ such technology in the other's market for a period of five (5) years after the Closing Date. Prior to Closing, the Company will produce a copy of the drawings for this technology and transfer it to Seller.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

Except as set forth in the Schedules attached hereto, Seller and the Company jointly and severally represent and warrant to Buyer that the statements contained in this [Article III](#) are true and correct on the date hereof and will be true and correct on the Closing Date except to the extent disclosed in an update to a Schedule. Any matter disclosed in any Schedule shall be deemed to have been disclosed in all applicable Schedules.

Section 3.01 Organization and Authority of Seller

. Seller is a corporation duly organized, validly existing and in good standing under the Laws of the state of Tennessee. Seller has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Seller is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and any other Transaction Document to which Seller is a party, the performance by Seller of its obligations hereunder and thereunder and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Seller. This Agreement has been duly executed and delivered by Seller, and (assuming due authorization, execution and delivery by Buyer) this Agreement constitutes a legal, valid and binding obligation of Seller enforceable against Seller in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). When each other Transaction Document to which Seller is or will be a party has been duly executed and delivered by Seller (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Seller enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

Section 3.02 Organization, Authority and Qualification of the Company

. The Company is a corporation duly organized, validly existing and in good standing under the Laws of the state of Delaware and has full corporate power and authority to own, operate or lease the properties and assets now owned, operated or leased by it and to carry on its business as it has been and is currently conducted. [Schedule 3.02](#) sets forth each jurisdiction in which the Company is licensed or qualified to do business, and the Company is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the properties owned or leased by it or the operation of its business as currently conducted makes such licensing or qualification necessary. All corporate actions taken by the Company in connection with this Agreement and the other Transaction Documents will be duly authorized on or prior to the Closing.

Section 3.03 Capitalization

(a) The authorized capital stock of the Company includes 2,200 shares of Class A Common Stock ("**Common Stock**"), of which 1,335 shares are issued and outstanding and constitute the Shares. The Company has the following additional capital stock authorized, of which no shares are outstanding: 350 Class A Cumulative Convertible Preferred Shares, 350 Class B Cumulative Convertible Preferred Shares, 3,800 Class C Cumulative Non-Convertible Preferred Shares, and 800 Class B Common Shares. All of the Shares have been duly authorized, are validly issued, fully paid and non-assessable, and are owned of record and beneficially by Seller, free and clear of all Encumbrances. Upon consummation of the transactions contemplated by this Agreement, Buyer shall own all of the Shares, free and clear of all Encumbrances. There are no shares of Common Stock of the Company outstanding except for the Shares.

(b) All of the Shares were issued in compliance with applicable Laws. None of the Shares were issued in violation of any agreement, arrangement or commitment to which Seller or the Company is a party or is subject to or in violation of any preemptive or similar rights of any Person.

(c) There are no outstanding or authorized options, warrants, convertible securities or other rights, agreements, arrangements or commitments of any character relating to the capital stock of the Company or obligating Seller or the Company to issue or sell any shares of capital stock of, or any other interest in, the Company. The Company does not have outstanding or authorized any stock appreciation, phantom

stock, profit participation or similar rights. There are no voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of any of the Shares. There is no capital stock of the Company outstanding except for the Shares

Section 3.04 No Subsidiaries

. The Company does not own, or have any interest in any shares or have an ownership interest in any other Person.

Section 3.05 No Conflicts; Consents

. The execution, delivery and performance by Seller of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of Seller or the Company; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to Seller or the Company; or (c) except as set forth in **Schedule 3.05**, require the consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract to which Seller or the Company is a party or by which Seller or the Company is bound or to which any of their respective properties and assets are subject (including any Material Contract). No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Seller or the Company in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

Section 3.06 Financial Statements

. Complete copies of the Company's unaudited financial statements consisting of the balance sheet of the Company as of December 31 in each of the years 2009, 2010, and 2011 and the related statements of income and retained earnings and stockholders' equity for the years then ended (the "**Annual Financial Statements**"), and unaudited financial statements consisting of the balance sheet of the Company as of September 30, 2012 and the related statements of income and retained earnings and stockholders' equity for the nine-month period then ended (the "**Interim Financial Statements**") and together with the Annual Financial Statements, the "**Financial Statements**") have been delivered to Buyer, copies of which are set forth on **Schedule 3.06**. The Financial Statements have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved, subject, in the case of the Annual Financial Statements to the following: (i) provisions for federal income taxes are excluded from the income statements, (ii) current year federal income tax assets and liabilities and deferred federal income tax assets and liabilities are excluded from the balance sheets; (iii) the effect of the current year's federal income tax provision is excluded from equity on the balance sheets and from the statements of retained earnings; (iv) interest and management fees charged by Astec, Inc. are excluded from the income statements; (v) current year accruals for interest and management fees charged by Seller are excluded from the balance sheets; (vi) the effect of the current year's interest and management fees charged by Seller are excluded from equity on the balance sheets and from the statements of retained earnings; and (vii) the absence of GAAP mandated footnotes; and in the case of the Interim Financial Statements, to the absence of normal and recurring year-end adjustments. The Financial Statements are based on the books and records of the Company, and fairly present (in all material respects) the financial condition of the Company as of the respective dates they were prepared and the results of the operations of the Company for the periods indicated. The balance sheet of the Company as of December 31, 2011 is referred to herein as the "**Balance Sheet**" and the date thereof as the "**Balance Sheet Date**" and the balance sheet of the Company as of September 30, 2012 is referred to herein as the "**Interim Balance Sheet**" and the date thereof as the "**Interim Balance Sheet Date**". The Company maintains a standard system of accounting and controls established and administered in accordance with GAAP.

Section 3.07 Undisclosed Liabilities

. To Seller's Knowledge, the Company has no liabilities, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured or otherwise ("**Liabilities**"), except (a) those which are adequately reflected or reserved against in the Interim Balance Sheet as of the Interim Balance Sheet Date, and (b) those which have been incurred in the ordinary course of business consistent with past practice since the Interim Balance Sheet Date and which are not, individually or in the aggregate, material in amount.

Section 3.08 Absence of Certain Changes, Events and Conditions

. Since the Interim Balance Sheet Date, the Company has operated in the ordinary course of business consistent with past practice. Without limitation, since the Interim Balance Sheet Date there has not been, with respect to the Company, any:

- (a) event, occurrence or development that has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;
- (b) amendment of the charter, by-laws or other organizational documents of the Company;
- (c) split, combination or reclassification of any shares of its capital stock;
- (d) issuance, sale or other disposition of any of its capital stock, or grant of any options, warrants or other rights to purchase or obtain (including upon conversion, exchange or exercise) any of its capital stock;
- (e) declaration or payment of any dividends or distributions on or in respect of any of its capital stock or redemption, purchase or acquisition of its capital stock;
- (f) material change in any method of accounting or accounting practice of the Company;
- (g) incurrence, assumption or guarantee of any indebtedness for borrowed money;
- (h) transfer, assignment or grant of any license or sublicense of any rights under or with respect to any Intellectual Property;
- (i) damage, destruction or loss (whether or not covered by insurance) to its property;
- (j) any capital investment in, or any loan to, any other Person;
- (k) acceleration, termination, material modification to or cancellation of any Material Contract;
- (l) any material capital expenditures;
- (m) grant of any bonuses, whether monetary or otherwise, or increase in any wages, salary, severance, pension or other compensation or benefits in respect of its employees, officers, directors, independent contractors or consultants, other than as provided for in any written agreements;
- (n) any loan to (or forgiveness of any loan to), or entry into any other transaction with, any of its stockholders, directors, officers and employees;
- (o) entry into a new line of business or abandonment or discontinuance of existing lines of business other than the Excluded Business;
- (p) acquisition by merger or consolidation with, or by purchase of a substantial portion of the assets or stock of, or by any other manner, any business or any Person or any division thereof; or
- (q) any Contract to do any of the foregoing, or any action or omission that would result in any of the foregoing.

Section 3.09 Material Contracts

. (a) **Schedule 3.09(a)** lists each of the following Contracts of the Company (such Contracts, together with all Contracts concerning the occupancy, management or operation of any Real Property and all Contracts relating to Intellectual Property being referred to herein as "**Material Contracts**");

- (i) all purchase and sales orders;
- (ii) all Contracts that require the Company to purchase its total requirements of any product or service from a third party or that contain "take or pay" provisions;
- (iii) all Contracts that provide for the indemnification by the Company of any Person or the assumption of any Tax, environmental or other Liability of any Person;
- (iv) all Contracts that relate to the acquisition or disposition of any business, a material amount of stock or assets of any other Person or any real property (whether by merger, sale of stock, sale of assets or otherwise);
- (v) all broker, distributor, dealer, manufacturer's representative, franchise, agency, sales promotion, market research, marketing consulting and advertising Contracts to which the Company is a party;
- (vi) all employment agreements and Contracts with independent contractors or consultants (or similar arrangements) to which the Company is a party and which are not cancellable without

material penalty or without more than ninety (90) days' notice;

(vii) except for Contracts relating to trade receivables, all Contracts relating to indebtedness (including, without limitation, guarantees) of the Company or which purports to create an Encumbrance on any assets of the Company;

(viii) all Contracts with any Governmental Authority to which the Company is a party;

(ix) all Contracts that limit or purport to limit the ability of the Company to compete in any line of business or with any Person or in any geographic area or during any period of time;

(x) any Contracts to which the Company is a party that provide for any joint venture, partnership or similar arrangement by the Company;

(xi) all Contracts between or among the Company on the one hand and Seller or any Affiliate of Seller (other than the Company) on the other hand;

(xii) any other Contract that is material to the Company and not previously disclosed pursuant to this [Section 3.09](#);

(xiii) any material license of Intellectual Property except for licenses implied by the sale of goods and licenses to software generally commercially available;

(xiv) any Contract providing for severance, retention, change in control or other similar payments or benefits, with the amount of such payments or benefits set forth on [Schedule 3.09\(a\)\(xv\)](#);

(xv) any Contract pursuant to which the Company leases or rents any personal property from any other Person; and

(xvi) any Contract pursuant to which the Company leases or rents any personal property to any other Person.

(b) Each Material Contract is valid and binding on the Company in accordance with its terms and is in full force and effect. None of the Company or, to Seller's Knowledge, any other party thereto is in breach of or default under (or is alleged to be in breach of or default under) in any material respect, or has provided or received any notice of any intention to terminate, any Material Contract. To Seller's Knowledge, no event or circumstance has occurred that, with notice or lapse of time or both, would constitute an event of default under any Material Contract or result in a termination thereof or would cause or permit the acceleration or other changes of any right or obligation or the loss of any benefit thereunder.

Section 3.10 Title to Assets; Real Property

(a) The Company has good and valid (and, in the case of owned Real Property, good and marketable fee simple) title to, or a valid leasehold interest in, all Real Property and tangible personal property reflected in the Interim Balance Sheet or acquired after the Interim Balance Sheet Date, other than properties and assets sold or otherwise disposed of in the ordinary course of business consistent with past practice since the Interim Balance Sheet Date. All such properties and assets (including leasehold interests) are free and clear of Encumbrances except for the following (collectively referred to as "**Permitted Encumbrances**"):

(i) liens for Taxes not yet due and payable or being contested in good faith by appropriate procedures and for which there are adequate accruals or reserves on the Balance Sheet;

(ii) mechanics, carriers', workmen's, repairmen's or other like liens arising or incurred in the ordinary course of business consistent with past practice or amounts that are not delinquent; or

(iii) easements, rights of way, zoning ordinances and other similar encumbrances affecting Real Property or that do not materially prevent or restrict the operations of the Company at the Real Property.

(iv) equipment leases with third parties entered into in the ordinary course of business consistent with past practice; or

(v) Encumbrances of record with respect to the Real Property.

(b) [Schedule 3.10\(b\)](#) lists (i) the street address of each parcel of Real Property; (ii) if such property is leased or subleased by the Company, the landlord under the lease, the rental amount currently being paid, and the expiration of the term of such lease or sublease for each leased or subleased property; and (iii) the current use of such property. To Seller's Knowledge, the use and operation of the Real Property in the conduct of the Company's business do not violate in any material respect any Law, covenant, condition, restriction, easement, license, permit or agreement. There are no Actions pending nor, to the Seller's Knowledge, threatened against or affecting the Real Property or any portion thereof or interest therein in the nature or in lieu of condemnation or eminent domain proceedings.

Section 3.11 Condition And Sufficiency of Assets

To Seller's Knowledge, the buildings, plants, structures, furniture, fixtures, machinery, equipment, vehicles and other items of tangible personal property currently owned or leased by the Company, together with all other properties and assets of the Company, are sufficient for the continued conduct of the Company's business after the Closing in substantially the same manner as conducted prior to the Closing and constitute all of the rights, property and assets necessary to conduct the business of the Company as currently conducted. To Seller's Knowledge all such property and assets are in good repair and working condition and have been maintained in accordance with industry standards.

Section 3.12 Intellectual Property

[Schedule 3.12](#) lists all Intellectual Property owned or used by the Company in connection with the Business, including Intellectual Property Registrations and Intellectual Property Licenses. Except as set forth in [Schedule 3.12](#), Seller owns or has the right to use all Intellectual Property necessary to conduct the Business as currently conducted without payment of any amount, other than license, filing, continuation, renewal or maintenance fees, taxes and similar charges. Except as set forth in [Schedule 3.12](#), to Seller's Knowledge: (i) Seller's conduct of the Business as currently conducted does not infringe, violate, dilute or misappropriate the Intellectual Property of any Person; and (ii) no Person is infringing, violating, diluting or misappropriating any Intellectual Property Assets.

Section 3.13 Inventory

All finished goods inventory of the Company consists of a quality and quantity usable and salable in the ordinary course of business consistent with past practice, except for obsolete, damaged, defective or slow-moving items that have been written off or written down to fair market value or for which adequate reserves have been established. All such inventory is owned by the Company free and clear of all Encumbrances, and no inventory is held on a consignment basis. To Seller's Knowledge, the quantities of each item of inventory (whether raw materials, work-in-process or finished goods) are not excessive, but are reasonable in the present circumstances of the Company.

Section 3.14 Accounts Receivable

Except as set forth on [Schedule 3.14](#), the accounts receivable reflected on the Interim Balance Sheet and the accounts receivable arising after the date thereof have arisen from bona fide transactions entered into by the Company involving sales of goods actually made or the rendering of services actually performed in the ordinary course of business consistent with past practice, and are not owing by Affiliates of the Company. There are no material disputes with respect to any of the accounts receivable reflected on the Interim Balance Sheet that have not been reserved for on the Financial Statements. [Schedule 3.14](#) includes a true and complete listing of the accounts receivable of the Company.

Section 3.15 Insurance

[Schedule 3.15](#) contains an accurate and complete list of all policies of fire and other casualty, auto liability, general liability, theft, workers' compensation, directors and officers, business interruption and other forms of insurance owned or held by the Company, specifying the insurer, the policy number, the term of the coverage. All present policies are in full force and effect. The Company has not received any notice from any insurer under such policies of any cancellations, or material premium increases with respect to such policies. [Schedule 3.15](#) lists each claim made against the Company's insurance policies with respect to the Business since December 31, 2009.

Section 3.16 Legal Proceedings; Governmental Orders

(a) Except for the items listed on [Schedule 3.16\(a\)](#) (the "**Known Actions**"), there are no Actions pending or, to Seller's Knowledge, threatened (a) against or by the Company affecting any of its properties or assets (or by or against Seller or any Affiliate thereof and relating to the Company); or (b) against or by the Company, Seller or any Affiliate of Seller that challenges or seeks to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement.

(b) Except for the items listed on [Schedule 3.16\(b\)](#) (the "**Known Judgments**"), there are no outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against or affecting the Company or any of its properties or assets.

Section 3.17 Compliance With Laws; Permits

(a) To Seller's Knowledge, the Company has complied, and is now complying, with all Laws applicable to it or the Business.

(b) **Schedule 3.17(b)** lists all current Permits (other than Environmental Permits) issued to the Company, including the names of the Permits and their respective dates of issuance and expiration. All Permits required for the Company to conduct its business have been obtained by it and are valid and in full force and effect and do not contain any adverse modifications. The Company is in full compliance with the terms and requirements of all such Permits.

(c) Neither the Company, nor any of its officers, directors, agents, employees or any other Persons acting on its behalf has made or accepted any payment, compensation, or gift in violation of the United States Foreign Corrupt Practices Act or any similar Law of any foreign jurisdiction.

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Section 3.18 Environmental Matters

- (a) The Company is currently and has been in compliance with all Environmental Laws and has not, and the Seller has not, received from any Person any: (i) Environmental Notice or Environmental Claim; or (ii) written request for information pursuant to Environmental Law, which, in each case, either remains pending or unresolved, or is the source of ongoing obligations or requirements as of the Closing Date.
- (b) The Company has obtained and is in material compliance with all Environmental Permits (each of which is disclosed in **Schedule 3.18(b)**) necessary for the ownership, lease, operation or use of the business or assets of the Company and all such Environmental Permits are in full force and effect, and shall be maintained in full force and effect by Seller through the Closing Date in accordance with Environmental Law, and neither Seller nor the Company is aware of any condition, event or circumstance that might prevent or impede, after the Closing Date, the ownership, lease, operation or use of the business or assets of the Company as currently carried out.
- (c) There has been no Release of Hazardous Materials in contravention of Environmental Law with respect to the business or assets of the Company or any real property currently or formerly owned, operated or leased by the Company, and neither the Company nor Seller has received an Environmental Notice that any real property currently or formerly owned, operated or leased in connection with the business of the Company (including soils, groundwater, surface water, buildings and other structure located on any such real property) has been contaminated with any Hazardous Material which could reasonably be expected to result in an Environmental Claim against, or a violation of Environmental Law or term of any Environmental Permit by, Seller or the Company.
- (d) **Schedule 3.18(d)** contains a complete and accurate list of all active or abandoned aboveground or underground storage tanks owned or operated by the Company.
- (e) Neither Seller nor the Company has retained or assumed, by contract or operation of Law, any liabilities or obligations of third parties under Environmental Law.

Section 3.19 Employee Benefit Matters

- (a) **Schedule 3.19(a)** contains a true and complete list of each pension, benefit, retirement, compensation, profit-sharing, deferred compensation, incentive, performance award, phantom equity, stock or stock-based, change in control, retention, severance, vacation, paid time off, fringe-benefit and other similar agreement, plan, policy, program or arrangement (and any amendments thereto), in each case whether or not reduced to writing and whether funded or unfunded, including each "employee benefit plan" within the meaning of §3(3) of ERISA, whether or not tax-qualified and whether or not subject to ERISA, which is or has been maintained, sponsored, contributed to, or required to be contributed to by the Company, or any entity, trade or business that is a member of a group described in §414(b),(c), (m) or (o) of the Code that includes the Company (an "ERISA Affiliate"), for the benefit of any current or former employee, officer, director, retiree, independent contractor or consultant of the Company or any spouse or dependent of such individual, or under which the Company has or may have any Liability, or with respect to which Buyer or any of its Affiliates would reasonably be expected to have any Liability, contingent or otherwise (as listed on **Schedule 3.19(a)**, each, a "Benefit Plan").
- (b) Except as set forth in **Schedule 3.19(b)**, each Benefit Plan has been established, administered and maintained in accordance with its terms and in compliance with all applicable Laws (including ERISA and the Code), and all required filings with respect to such Benefit Plans have been made on a timely basis.
- (c) No Benefit Plan is subject to Title IV of ERISA or §412 of the Code, or is a multi-employer plan within the meaning of §3(37)(A) of ERISA.
- (d) None of the Benefit Plans promises or provides health, life or other welfare benefits to retirees or former employees, or severance benefits, except as required by Code §4980B, §601 through §609 of ERISA, or comparable state statutes which provide for continuing health care coverage.
- (e) With respect to each Benefit Plan that is intended to be qualified under §401(a) of the Code and trust intended to be exempt from tax pursuant to §501(a) of the Code, such Benefit Plan and/or trust is subject to a currently effective favorable determination, notification, advisory or opinion letter, as applicable, as to its qualification status from the Internal Revenue Service or still has a remaining period of time to obtain such a determination from the Internal Revenue Service under applicable Treasury regulations. To Seller's Knowledge, no reason exists that would cause such qualified status to be revoked for any period.
- (f) There are no Actions pending or, to Seller's Knowledge, threatened by the IRS or Department of Labor with respect to any of the Benefit Plans. Neither the Company (and any Person who the Company has an obligation to indemnify) nor any ERISA Affiliate has engaged in any transactions with respect to any Benefit Plan that would reasonably be expected to subject the Company to a material Tax, penalty or Liability imposed by §4975 of the Code or §406 or §407 of ERISA.
- (g) All contributions, reserves or premiums payments required to be made by the Company or an ERISA Affiliate under the terms of any Benefit Plan have been timely made or have been reflected in the Financial Statements.
- (h) Except as disclosed on **Schedule 3.19(h)**, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby by the Sellers or in connection with any other event will (i) result in any payment (including any severance or unemployment compensation) becoming due from the Company or any ERISA Affiliate under any of the Benefit Plans, (ii) increase any benefits otherwise payable under any of the Benefit Plans, or (iii) result in the acceleration of the time of payment or vesting of any such benefits to any extent. No obligation exists under any Benefit Plan or otherwise to make a payment or transfer, accelerate a payment or transfer, or provide any other benefit that would constitute an "excess parachute payment" under §280G of the Code.
- (i) Except as disclosed on **Schedule 3.19(i)**, each Benefit Plan, or Company's participation in a Benefit Plan, can be terminated without further liability to Company.
- (j) Each Benefit Plan that is a "nonqualified deferred compensation plan" (as defined in §409A(d)(1) of the Code) is in compliance with Code §409A and the rules and regulations issued thereunder as to both form and operation. The Company is not a party to, and is not otherwise obligated under, any contract, plan or arrangement that provides for the gross-up of the Tax imposed by §409A(a)(1)(B) of the Code.

Section 3.20 Employment Matters

- (a) **Section 3.20(a)** of the Disclosure Schedules contains a list of all persons who are employees, independent contractors or consultants of the Company as of the date hereof, and sets forth for each such individual the following: (i) name; (ii) title or position (including whether full or part time); (iii) hire date; (iv) current annual base compensation rate; (v) commission, bonus or other incentive-based compensation; and (vi) a description of the fringe benefits provided to each such individual as of the date hereof. Except as set forth in **Schedule 3.20(a)**, as of the date hereof, all compensation, including wages, commissions and bonuses, payable to employees, independent contractors or consultants of the Company for services performed on or prior to the date hereof have been paid in full (or accrued in full on the final balance sheet used to calculate the Purchase Price) and there are no outstanding agreements, understandings or commitments of the Company with respect to any compensation, commissions or bonuses.
- (b) The Company is not, and has not been for the past five (5) years, a party to, bound by, or negotiating any collective bargaining agreement or other Contract with a union, works council or labor organization (collectively, "Union"), and there is not, and has not been for the past five (5) years, any Union representing or purporting to represent any employee of the Company, and, to Seller's Knowledge, no Union or group of employees is seeking or has sought to organize employees for the purpose of collective bargaining. Except as set forth in **Schedule 3.20(a)**, since September 20, 1999, there has never been, nor has there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work overtime or other similar labor disruption or dispute affecting the Company or any of its employees.

Section 3.21 Taxes

Except as set forth in **Schedule 3.21**:

- (a) All Tax Returns required to be filed on or before the Closing Date by the Company have been, or will be, timely filed. Such Tax Returns are, or will be, true, complete and correct in all respects. All Taxes due and owing by the Company (whether or not shown on any Tax Return) have been, or will be, timely paid, even if another party has contractually agreed to pay such Tax. The Company is not currently the beneficiary of any extension of time within which to file any Tax Return except as permitted by Law. The Affiliated Group of which the Seller is the common parent has filed all income Tax Returns that it was required to file for each taxable period during which the Company (or any predecessor of the Company) was a member of the group and to the Knowledge of Seller, all such Tax Returns were correct and complete and were prepared in compliance with applicable laws and regulations (i) in all respects in so far as they relate to the Company and (ii) in all material respects in so far as they do not relate to the Company. All income Taxes owed by the Affiliated Group of which the Seller is the common parent (whether or not shown on any Tax Return) have been paid for each taxable period during which the Company (or any predecessor of the Company) was a member of the group.
- (b) The Company has withheld and paid each Tax required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, customer, shareholder or other party, and complied with all information reporting and backup withholding provisions of applicable Law and all Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed. To the Seller's Knowledge, the Company has complied in all respects with the Foreign Account Tax Compliance Act. All Tax elections of the Company have been timely and properly made.
- (c) Seller has not received notice of any claim by any taxing authority in any jurisdiction where the Company does not file Tax Returns that it is, or may be, subject to Tax by that jurisdiction.
- (d) No Tax Returns have been audited. There are no liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of the Company.
- (e) To the Knowledge of Seller, the amount of the Company's Liability for unpaid Taxes for all periods ending on or before the Interim Balance Sheet Date does not, in the aggregate, exceed the amount of

accruals for Taxes (excluding reserves for deferred Taxes) reflected on the Interim Financial Statements. To the Knowledge of Seller, the amount of the Company's Liability for unpaid Taxes for all periods following the end of the recent period covered by the Financial Statements shall not, in the aggregate, exceed the amount of accruals for Taxes (excluding reserves for deferred Taxes) as adjusted for the passage of time in accordance with the past custom and practice of the Company (and which accruals shall not exceed comparable amounts incurred in similar periods in prior years).

(f) Seller is not a "foreign person" as that term is used in Treasury Regulations § 1.1445-2. The Company is not, nor has it been, a United States real property holding corporation (as defined in § 897(c)(2) of the Code) during the applicable period specified in § 897(c)(1)(a) of the Code.

(g) The Company is not a party to any venture, partnership, contract or arrangement under which it could be treated as a party for federal income tax purposes; the Company does not have a permanent establishment located in any tax jurisdiction other than the United States and is not liable for the payment of Taxes levied by any jurisdiction located outside the United States. No state of facts exists or has existed that would constitute grounds for the assessment of Tax liability against the Company with respect to any period that has not been audited by the IRS or other taxing authority. All transactions that could give rise to an understatement of federal income Tax (within the meaning of § 6662 of the Code or any predecessor provision thereof) have been adequately disclosed on the Company's Tax Returns in accordance with § 6662(d)(2)(B) of the Code or any predecessor provision thereof.

(h) There is no material dispute or claim concerning any Tax Liability of the Company or of any Affiliated Group for any taxable period during which the Company was a member of the group either (i) claimed or raised by any Governmental Authority or (ii) as to which Seller, and Seller's directors and officers has knowledge based on personal contact with any agent of such Governmental Authority. The Company is not the recipient or the subject of any private letter ruling from the IRS.

(i) The Company is not a party to any agreement, contract, arrangement, or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payment" within the meaning of Code § 280G (or any corresponding provision of state, local, or non-U.S. Tax law) in connection with the transactions contemplated by this Agreement.

(j) The Company has not been a member of an Affiliated Group filing a consolidated federal income Tax Return other than a group the common parent of which is Seller.

(k) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing as a result of any:

(i) change in method of accounting for a taxable period ending on or prior to the Closing;

(ii) "closing agreement" as described in Code § 7121 (or any corresponding or similar provision of state, local, or non-U.S. income Tax Law);

(iii) intercompany transactions or any excess loss account described in Treasury Regulation under Code § 1502 (or any corresponding or similar provision of state, local, or non-U.S. income Tax Law);

(iv) installment sale or open transaction disposition made on or prior to the Closing;

(v) prepaid amount received on or prior to the Closing; or

(vi) election under Code § 108(i).

(l) Within the past three (3) years, the Company has not distributed stock of another Person or has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by Code § 355 or Code § 361. The Company has not engaged in any transaction described in Code § 368 or Code § 332.

(m) The Company has not been a party to any "listed transaction" as defined in Code § 6707A(c)(2) and Treasury Regulation § 1.6011-4(b)(2).

(n) Seller has filed a consolidated federal income Tax Return with the Company for the taxable year immediately preceding the current taxable year and is eligible to make a Code § 338(h)(10) election.

(o) Neither Seller nor Seller's directors, officers, or any employee responsible for tax matters of Seller and its subsidiaries expects any Government Authority to assess any additional income Taxes against the Affiliated Group of which the Seller is the common parent for any taxable period during which the Company was a member of the group. The Affiliated Group of which the Seller is the common parent has not waived any statute of limitations in respect of any income Taxes or agreed to any extension of time with respect to a material income Tax assessment or deficiency for any taxable period during which the Company was a member of the group.

(p) The consummation of the transactions contemplated by this Agreement will not result in the recapture of any Tax benefit previously claimed by the Company.

Section 3.22 Books and Records

. The minute books and stock record books of the Company, all of which have been made available to Buyer, are complete and correct in all material respects and have been maintained in accordance with sound business practices. At the Closing, all of those books and records will be in the possession of the Company.

Section 3.23 Manufacturing and Marketing Rights

. The Company has not granted to any Person any rights to manufacture, produce, assemble, license, distribute, market, or sell any products that are or were developed, manufactured, marketed or sold by the Company in connection with the Business, and Seller is not bound by any agreement that will affect Buyer's right to develop, manufacture, assemble, distribute, market or sell such products after the Closing.

Section 3.24 Directors and Officers

. Schedule 3.24 sets forth a true and complete list of each director and officer of the Company.

Section 3.25 Customers and Suppliers

(a) Schedule 3.25(a) sets forth a list of the five (5) largest customers in terms of the dollar value of goods and services sold by Seller relating to the operation of the Product Line during the twelve month period ended September 30, 2012 (each, a "Top Customer"). Except as set forth in Schedule 3.25(a), there has not been in the 12-month period prior to the date hereof any adverse change in the business arrangement with, or in the business relationship or practice of Seller with respect to, any Top Customer. To the Knowledge of Seller, no Top Customer will terminate its relationship with Seller or materially decrease its business with Seller as a result of the transactions contemplated by this Agreement or for any other reason.

(b) Schedule 3.25(b) sets forth a list of the five (5) largest suppliers in terms of the dollar value of goods and services purchased by Seller relating to the operation of the Product Line during the twelve month period ended September 30, 2012 (each, a "Top Supplier"). Except as set forth in Schedule 3.25(b), there has not been in the 12-month period prior to the date hereof any adverse change in the business arrangement with, or in the business relationship or practice of Seller with respect to, any Top Supplier. To the Knowledge of Seller, no Top Supplier will terminate its relationship with Seller or materially decrease its business with Seller as a result of the transactions contemplated by this Agreement or for any other reason.

Section 3.26 Related Party Transactions

. Except as set forth in Schedule 3.26, the Company is not a party to any contract or arrangement with or indebted to any of its officers, directors or shareholders, their relatives or Affiliates, and none of such Persons is indebted to the Company or have any ownership interest in or any contractual relationship with any Person with which the Company is affiliated.

Section 3.27 Brokers

. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Seller.

Section 3.28 No Other Representations and Warranties

. Except for the representations and warranties contained in this Article III (including the related portions of the Disclosure Schedules), neither Seller nor any other Person has made or makes any other express or implied representation or warranty, either written or oral, on behalf of Seller, including any representation or warranty as to the accuracy or completeness of any information regarding the Company furnished or made available to Buyer and its Representatives or as to the future revenue, profitability or success of the Business, or any representation or warranty arising from statute or otherwise in law.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the statements contained in this [Article IV](#) are true and correct as of the date hereof.

Section 4.01 Organization and Authority of Buyer

. Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the state of Oklahoma. Buyer has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Buyer is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and any other Transaction Document to which Buyer is a party, the performance by Buyer of its obligations hereunder and thereunder and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Buyer. This Agreement has been duly executed and delivered by Buyer, and (assuming due authorization, execution and delivery by Seller) this Agreement constitutes a legal, valid and binding obligation of Buyer enforceable against Buyer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). When each other Transaction Document to which Buyer is or will be a party has been duly executed and delivered by Buyer (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Buyer enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

Section 4.02 No Conflicts; Consents

. The execution, delivery and performance by Buyer of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of Buyer; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to Buyer; or (c) require the consent, notice or other action by any Person under any Contract to which Buyer is a party. No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Buyer in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

Section 4.03 Investment Purpose

. Buyer is acquiring the Shares solely for its own account for investment purposes and not with a view to, or for offer or sale in connection with, any distribution thereof. Buyer acknowledges that the Shares are not registered under the Securities Act of 1933, as amended, or any state securities laws, and that the Shares may not be transferred or sold except pursuant to the registration provisions of the Securities Act of 1933, as amended or pursuant to an applicable exemption therefrom and subject to state securities laws and regulations, as applicable.

Section 4.04 Legal Proceedings

. There are no Actions pending or, to Buyer's knowledge, threatened against or by Buyer or any Affiliate of Buyer that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement. No event has occurred or circumstances exist that may give rise or serve as a basis for any such Action.

Section 4.05 Brokers

. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Buyer.

ARTICLE V

COVENANTS

Section 5.01 Conduct of Business Prior to the Closing

. From the date hereof until the Closing, except as otherwise provided in this Agreement or consented to in writing by Buyer (which consent shall not be unreasonably withheld or delayed), Seller shall, and shall cause the Company to, (a) conduct the business of the Company in the ordinary course of business consistent with past practice; (b) use reasonable best efforts to maintain and preserve intact the current organization, business and franchise of the Company and to preserve the rights, franchises, goodwill and relationships of its employees, customers, lenders, suppliers, regulators and others having business relationships with the Company, and (c) not to do anything described in [Section 3.08](#).

Section 5.02 Access to Information

. From the date hereof until the Closing, Seller shall, and shall cause the Company to, (a) afford Buyer and its Representatives full and free access to and the right to inspect all of the Real Property, properties, assets, premises, books and records, Contracts and other documents and data related to the Company; (b) furnish Buyer and its Representatives with such financial, operating and other data and information related to the Company as Buyer or any of its Representatives may reasonably request; and (c) instruct the Representatives of Seller and the Company to cooperate with Buyer in its investigation of the Company. Without limiting the foregoing, Seller shall permit Buyer and its Representatives to conduct environmental due diligence of the Company and the Real Property, including the collecting and analysis of samples of indoor or outdoor air, surface water, groundwater or surface or subsurface land on, at, in, under or from the Company and the Real Property. Any investigation pursuant to this [Section 5.02](#) shall be conducted in such manner as not to unreasonably interfere unreasonably with the conduct of the business of Seller or the Company.

Section 5.03 Supplement to Disclosure Schedules

. From the date of this Agreement until the Closing, Seller will give prompt notice to Buyer of (a) the occurrence, or non-occurrence, of any event, the occurrence or non-occurrence of which would reasonably be expected to cause any representation or warranty of Seller contained in this Agreement to be untrue or inaccurate in any material respect, in each case at any time from and after the date of this Agreement until the Closing and (b) any failure to comply with or satisfy in any material respect any covenant, condition or agreement of Seller to be complied with or satisfied under this Agreement. If any such event requires any change to the Schedules, Seller shall promptly deliver to Buyer a supplement to the Schedules specifying such change. If Buyer elects to close the transactions contemplated by this Agreement notwithstanding any update to the Schedules, (a) such update shall be deemed to have modified the representations and warranties of Seller, as applicable, (b) Buyer shall have been deemed to have waived any condition to its obligation to close the transactions contemplated by this Agreement relating solely to such matter or circumstance, and (c) Buyer shall not be entitled to any indemnification with respect to the matter or circumstance described in such update.

Section 5.04 Notice of Certain Events

. From the date hereof until the Closing, Seller shall promptly notify Buyer in writing of: any fact, circumstance, event or action the existence, occurrence or taking of which (a) has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (b) has resulted in, or could reasonably be expected to result in, any representation or warranty made by Seller hereunder not being true and correct or (c) has resulted in, or could reasonably be expected to result in, the failure of any of the conditions set forth in [Section 7.01](#) to be satisfied;

Section 5.05 Resignations

. Seller shall deliver to Buyer written resignations, effective as of the Closing Date, of all the officers and directors of the Company.

Section 5.06 Confidentiality

. From and after the Closing, Seller shall, and shall cause its Affiliates to, hold, and shall use its reasonable best efforts to cause its or their respective Representatives to hold, in confidence any and all information, whether written or oral, concerning the Company, except to the extent that Seller can show that such information (a) is generally available to and known by the public through no fault of Seller, any of its Affiliates or their respective Representatives; (b) is lawfully acquired by Seller, any of its Affiliates or their respective Representatives from and after the Closing from sources which are not prohibited from disclosing such information by a legal, contractual or fiduciary obligation; or (c) is legally required to be disclosed by applicable Law or Governmental Order. If Seller or any of its Affiliates or their respective Representatives are compelled to disclose any information by judicial or administrative process or by other requirements of Law, Seller shall promptly notify Buyer in writing and shall disclose only that portion of such information which Seller is advised by its counsel in writing is legally required to be disclosed, *provided that* Seller shall use reasonable best efforts to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded such information.

Section 5.07 Non-competition

(a) **Noncompetition.** For a period of five (5) years after the Closing Date (the “**Restricted Period**”), neither Seller nor any Affiliate shall, and they shall cause their Affiliates not to, anywhere in the world, directly or indirectly invest in, own, manage, operate, finance, control, advise, render services to or guarantee the obligations of any Person engaged in or planning to become engaged in the business of designing, manufacturing, distributing, marketing, or selling any product that competes directly with the Business (“**Competing Business**”), *provided, however*, that Seller may (i) purchase or otherwise acquire up to (but not more than) two percent (2%) of any class of the securities of any Person engaged in a Competing Business (but may not otherwise participate in the activities of such Person) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Exchange Act, and (ii) advertise and sell the assets of the Excluded Business.

(b) **Non-Solicitation.** During the Restricted Period, neither Seller nor any Affiliate shall, and they shall cause their Affiliates not to, (i) induce or attempt to induce or encourage others to induce or attempt to induce, any Person who is or during the Restricted Period becomes an employee of, consultant to or agent of the Company to terminate such Person’s employment with the Company (in the case of an employee) or cease providing its services to the Company (in the case of a consultant or agent); *provided*, that nothing herein shall restrict the Company or Seller or any affiliate from undertaking general solicitations through advertising or similar means which are not specifically directed at employees of, consultants to or agents of the Company or employing or engaging anyone who responds to such general solicitations; or (ii) induce or attempt to induce or encourage others to induce or attempt to induce any Person who is or during the Restricted Period becomes a customer, supplier, referral source, or key business relationship of the Company to cease doing business with the Company or otherwise materially alter their relationship with the Company or, in the case of referral sources, to refer their business to any Person engaged in the Competing Business (other than the Company), or, in the case of customers, to place their business with any Person engaged in the Competing Business (other than the Company).

(c) **Non-Disparagement.** Seller agrees that during the Restricted Period they will not, either on their own account or directly or indirectly in conjunction with or on behalf of any other Person, disparage or otherwise speak or write negatively about Buyer or the Business or cause any other person to disparage or speak or write negatively about Buyer or the Business.

(d) **Modification of Covenant.** If a final judgment of a court or tribunal of competent jurisdiction determines that any term or provision contained in **Section 5.07(a)** is invalid or unenforceable, then the parties agree that the court or tribunal will have the power to reduce the scope, duration or geographic area of the term or provision, to delete specific words or phrases or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision. This **Section 5.07** will be enforceable as so modified after the expiration of the time within which the judgment may be appealed. This **Section 5.07** is reasonable and necessary to protect and preserve Buyer’s legitimate business interests and the value of the Assets and to prevent any unfair advantage conferred on Seller.

Section 5.08 Governmental Approvals and Consents

Each party hereto shall, as promptly as possible, (i) make, or cause to be made, all filings and submissions required under any Law applicable to such party or any of its Affiliates; and (ii) use commercially reasonable efforts to obtain, or cause to be obtained, all consents, authorizations, orders and approvals from all Governmental Authorities that may be or become necessary for its execution and delivery of this Agreement and the performance of its obligations pursuant to this Agreement. Each party shall cooperate fully with the other party and its Affiliates in promptly seeking to obtain all such consents, authorizations, orders and approvals. The parties hereto shall not willfully take any action that will have the effect of delaying, impairing or impeding the receipt of any required consents, authorizations, orders and approvals.

Section 5.09 Books and Records

(a) In order to facilitate the resolution of any claims made against or incurred by Seller prior to the Closing, or for any other reasonable purpose, for a period of three (3) years after the Closing, Buyer shall:

(i) retain the books and records (including personnel files) of the Company relating to periods prior to the Closing in a manner reasonably consistent with the prior practices of Buyer; and

(ii) upon reasonable notice, afford the Representatives of Seller reasonable access (including the right to make, at Seller’s expense, photocopies), during normal business hours, to such books and records;

provided, however, that any books and records related to Tax matters shall be retained pursuant to the periods set forth in [Article VI](#).

(b) In order to facilitate the resolution of any claims made by or against or incurred by Buyer or the Company after the Closing, or for any other reasonable purpose, for a period of three (3) years following the Closing, Seller shall:

(i) retain the books and records (including personnel files) of Seller which relate to the Company and its operations for periods prior to the Closing; and

(ii) upon reasonable notice, afford the Representatives of Buyer or the Company reasonable access (including the right to make, at Buyer’s expense, photocopies), during normal business hours, to such books and records;

provided, however, that any books and records related to Tax matters shall be retained pursuant to the periods set forth in [Article VI](#).

(c) Neither Buyer nor Seller shall be obligated to provide the other party with access to any books or records (including personnel files) pursuant to this [Section 5.09](#) where such access would violate any Law.

Section 5.10 Closing Conditions

From the date hereof until the Closing, each party hereto shall, and Seller shall cause the Company to, use reasonable best efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in [Article VII](#) hereof.

Section 5.11 Public Announcements

Unless otherwise required by applicable Law or stock exchange requirements (based upon the reasonable advice of counsel), no party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party (which consent shall not be unreasonably withheld or delayed), and the parties shall cooperate as to the timing and contents of any such announcement.

Section 5.12 Further Assurances

Following the Closing, each of the parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement.

Section 5.13 Exclusivity

Seller agrees and covenant that until the Closing or until this Agreement expires or is terminated, neither Seller nor any of its Representatives will discuss, negotiate, or offer (or solicit offers) regarding a sale, transfer, or other disposition of the Shares or any merger, combination, restructuring, refinancing, or similar transaction involving Seller (a “**Sale**”) with another Person or provide any information to any other Person regarding the Shares or the Business. Seller represents that it is not a party to or bound by any agreement with respect to a Sale except for this Agreement. Seller will disclose to Buyer the existence or occurrence of any proposal or contract, whether written or oral, that it has received or may receive during the term of this Agreement with respect to any such Sale and shall furnish Buyer with copies of any such proposal or contract and any written communications and written summaries of any oral communications concerning a Sale.

Section 5.14 Letters of Credit

The Company is a party to a Contract for 500 Metric Ton HDD Rig, Model DD-1100RS of China Petroleum Pipeline Bureau (Contract No. HQCEC/PPP-2011-TA-0062) dated June 30, 2011 with China Huanqiu Contracting & Engineering Corporation (“**Huanqiu**”) for two set(s) of 500 metric ton HDD Rig, Model DD-1100RS for a purchase price of \$5,100,000. In connection with this contract, the Company has caused a letter of credit (Doc. Credit No. IS 0000233 issued 11/8/2011) to be issued by Wells Fargo Bank, N.A. (the “**Bank**”) in the amount of \$510,000. This letter of credit secures the warranty obligations of the Company with respect to the equipment and expires on January 30, 2012. If a draw is made on the letter of credit, Seller must reimburse the Bank, which may occur via setoff against Seller’s funds at the Bank. The Company has also caused Bank to issue a letter of credit (LC No. SC7000890W issued 12/7/2011) to secure the Company contractual obligations to Huanqiu to ship certain equipment consisting of a horizontal directional drilling machine (500 tons) by a defined date. The amount of this letter of credit is \$57,000 and the expiration date is December 15, 2012. If a draw is made on either of the foregoing letters of credit, so long as the draw does not occur as a result of a breach of the foregoing agreements by the Company prior to Closing, Buyer will reimburse Seller for any Losses incurred by Seller as a result of such draw.

Section 5.15 Tax Returns

As soon as reasonably practicable following the date of this Agreement, Seller will provide Buyer with a correct and complete list all federal, state, local, and Non-U.S. Tax Returns filed with respect to the Company for taxable periods ended on or after December 31, 2009, and such list will indicate those Income Tax Returns that have been audited and those Income Tax Returns that currently are the subject of audit, if any.

Section 5.16 Material Contracts

. As soon as reasonably practicable following the date of this Agreement, Seller will provide Buyer with a correct and complete list of all Contracts of the Company involving aggregate consideration in excess of \$25,000 or which cannot be cancelled by the Company without penalty or without more than ninety (90) days' notice.

ARTICLE VI

TAX MATTERS

Section 6.01 Tax Covenants

(a) Without the prior written consent of Buyer, Seller (and, prior to the Closing, the Company, its Affiliates and their respective Representatives) shall not, to the extent it may affect, or relate to, the Company, make, change or rescind any Tax election, amend any Tax Return or take any position on any Tax Return, take any action, omit to take any action or enter into any other transaction that would have the effect of increasing the Tax liability or reducing any Tax asset of Buyer or the Company in respect of any Post-Closing Tax Period. Seller agrees that Buyer is to have no liability for any Tax resulting from any action of Seller, the Company, its Affiliates or any of their respective Representatives, and agrees to indemnify and hold harmless Buyer (and, after the Closing Date, the Company) against any such Tax or reduction of any Tax asset.

(b) All transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax) shall be borne and paid by Buyer when due. Buyer shall, at its own expense, timely file any Tax Return or other document with respect to such Taxes or fees (and Seller shall cooperate with respect thereto as necessary).

(c) Except as provided in **Section 6.01(d)**, Buyer shall prepare, or cause to be prepared, all Tax Returns required to be filed by the Company after the Closing Date with respect to a Pre-Closing Tax Period. Any such Tax Return shall be prepared in a manner consistent with past practice (unless otherwise required by Law) and without a change of any election or any accounting method and shall be submitted by Buyer to Seller (together with schedules, statements and, to the extent requested by Seller, supporting documentation) at least forty-five (45) days prior to the due date (including extensions) of such Tax Return. If Seller objects to any item on any such Tax Return, it shall, within fifteen (15) days after delivery of such Tax Return, notify Buyer in writing that it so objects, specifying with particularity any such item and stating the specific factual or legal basis for any such objection. If a notice of objection shall be duly delivered, Buyer and Seller shall negotiate in good faith and use their reasonable best efforts to resolve such items. If Buyer and Seller are unable to reach such agreement within ten (10) days after receipt by Buyer of such notice, the disputed items shall be resolved by a nationally recognized accounting firm selected by Buyer and reasonably acceptable to Seller (the "Accounting Referee") and any determination by the Accounting Referee shall be final. The Accounting Referee shall resolve any disputed items within twenty (20) days of having the item referred to it pursuant to such procedures as it may require. If the Accounting Referee is unable to resolve any disputed items before the due date for such Tax Return, the Tax Return shall be filed as prepared by Buyer and then amended to reflect the Accounting Referee's resolution. The costs, fees and expenses of the Accounting Referee shall be borne equally by Buyer and Seller. The preparation and filing of any Tax Return of the Company that does not relate to a Pre-Closing Tax Period shall be exclusively within the control of Buyer.

(d) For Pre-Closing Tax Periods, Seller shall cause the Company to join in Seller's consolidated federal income Tax Return and in Seller's combined state income Tax Returns for jurisdictions requiring combined reporting from Seller, for the short tax year ending on the date of Closing. Seller will also prepare and file the Company's separate entity state and local Tax Returns for jurisdictions requiring separate entity reporting for the short tax year ending on the date of Closing. Seller shall include the income of the Company (including deferred items triggered into income by Treasury Regulation §1.1502-13 and any excess loss account taken into income under Treasury Regulation §1.1502-19) on Seller's consolidated federal income Tax Returns, Seller's combined entity state income Tax Returns and the Company's separate entity state and local Tax Returns as required to be filed with respect to a Pre-Closing Tax Period and pay any federal, state, and local income Taxes attributable to such income. All such Tax Returns shall be prepared and filed in a manner consistent with past custom and practice, except as required by a change in law. Buyer shall have the right to review and comment on any such Tax Returns prepared by Seller. Buyer shall cause the Company to furnish information to Seller as reasonably requested by Seller to allow Seller to satisfy its obligations under this section. The Company and Buyer shall consult and cooperate with Seller as to any elections to be made on returns of the Company for Pre-Closing Tax Periods. The Company shall provide tax information to the Seller for inclusion in the Seller's federal consolidated income Tax Return, state combined entity income Tax Returns, and state and local separate entity income Tax Returns for the Pre-Closing Tax Period. Buyer shall cause the Company to file income Tax Returns for all Post-Closing Tax Periods.

(e) Any tax indemnity agreement, tax sharing agreement, tax allocation agreement, or any similar arrangement for the sharing of Tax liabilities or benefits between Seller and the Company shall be terminated as of the Closing and shall have no further effect after the Closing Date.

(f) Seller shall allow the Company to participate in any audit of Seller's consolidated federal income Tax Returns to the extent that such returns relate to the Company. Seller shall not settle any audit of a Seller consolidated federal income Tax Return that relates to the Company in a manner that would adversely affect the Company after the Closing, without the prior written consent of Buyer, which consent shall not be unreasonably withheld if Buyer has been provided all information requested by Buyer related to the audit and Buyer has had a reasonable amount of time to seek and obtain the advice of professional advisors and to consider the effects on the Company.

Section 6.02 Tax Indemnification

. Seller shall indemnify the Company, Buyer, and each Buyer Indemnitee and hold them harmless from and against (a) any Losses attributable to any breach of or inaccuracy in any representation or warranty made in **Section 3.21**; (b) any Losses attributable to any breach or violation of, or failure to fully perform, any covenant, agreement, undertaking or obligation in **Article VI**, including but not limited to any adverse effect on the Company as a result of the settlement of an audit as described in **Section 6.01(f)**; (c) all Taxes of the Company or relating to the business of the Company for all Pre-Closing Tax Periods; (d) all Taxes of any member of an Affiliated Group of which the Company (or any predecessor of the Company) is or was a member on or prior to the Closing Date by reason of a liability under Treasury Regulation §1.1502-6 or any comparable provisions of foreign, state or local Law; (e) any Losses attributable to Seller's failure to pay any Taxes imposed on the Company attributable to the making of the Section 338(h)(10) Election, and (f) any and all Taxes of any person imposed on the Company arising under the principles of transferee or successor liability or by contract, relating to an event or transaction occurring before the Closing Date. In each of the above cases, together with any out-of-pocket fees and expenses (including attorneys' and accountants' fees) incurred in connection therewith. Seller shall reimburse Buyer for any Taxes of the Company that are the responsibility of Seller pursuant to this **Article VI** within ten (10) Business Days after payment of such Taxes by Buyer or the Company.

Section 6.03 Straddle Period

. In the case of Taxes that are payable with respect to a taxable period that begins before and ends after the Closing Date (each such period, a "Straddle Period"), the portion of any such Taxes that are treated as Pre-Closing Taxes for purposes of this Agreement shall be:

(a) in the case of Taxes based upon, or related to, income or receipts, deemed equal to the amount which would be payable if the taxable year ended with the Closing Date; and

(b) in the case of other Taxes, deemed to be the amount of such Taxes for the entire period multiplied by a fraction the numerator of which is the number of days in the period ending on the Closing Date and the denominator of which is the number of days in the entire period.

Section 6.04 Section 338(h)(10) Election

(a) **Election.** At Buyer's option, the Company and Seller shall join with Buyer in making a timely election under Section 338(h)(10) of the Code (and any corresponding election under state, local, and foreign Law) with respect to the purchase and sale of the Shares of the Company hereunder (collectively, a "**Section 338(h)(10) Election**"). Seller shall include any income, gain, loss, deduction, or other item or component of any Tax resulting from the Section 338(h)(10) Election on Seller's Tax Returns to the extent required by applicable law. Seller shall also pay any Taxes imposed on the Company attributable to the making of the Section 338(h)(10) Election, including (i) any Taxes imposed under Treasury Regulation §1.338(h)(10)-1(d)(2), or (ii) any state, local, or non-U.S. Tax imposed on the Company as a result of the Section 338(h)(10) Election.

(b) **Allocation of Purchase Price.** If a Section 338(h)(10) Election is made, Seller and Buyer agree that the Purchase Price and the Liabilities of the Company (plus other relevant items) shall be allocated among the assets of the Company for Tax purposes in accordance with an allocation schedule (the "**Allocation Schedule**") to be prepared in the following manner. A draft of the Allocation Schedule based on the Estimated Purchase Price shall be prepared by Buyer in a manner consistent with Code §338 and §1060 and the regulations thereunder and delivered to Seller at least seven (7) days prior to the Closing Date for its approval. If Seller notifies Buyer in writing that Seller objects to one or more items reflected in the Allocation Schedule, Seller and Buyer shall negotiate in good faith to resolve such disagreement. If the parties are in agreement as to the draft Allocation Schedule, the final Allocation Schedule after the purchase price adjustment under Section 2.04 shall be prepared in a consistent manner. Seller, the Company, and Buyer shall file all Tax Returns (including amended returns and claims for refund, and information reports) consistent with the Allocation Schedule to the extent agreed upon by the parties.

Section 6.05 Contests

. Buyer agrees to give written notice to Seller of the receipt of any written notice by the Company, Buyer or any of Buyer's Affiliates which involves the assertion of any claim, or the commencement of any Action, in respect of which an indemnity may be sought by Buyer pursuant to this **Article VI** (a "**Tax Claim**"); *provided, that* failure to comply with this provision shall not affect Buyer's right to indemnification hereunder. Buyer shall control the contest or resolution of any Tax Claim; *provided, however,* that Buyer shall obtain the prior written consent of Seller (which consent shall not be unreasonably withheld or delayed) before entering into any settlement of a claim or ceasing to defend such claim; and, *provided further,* that Seller shall be entitled to participate in the defense of such claim and to employ counsel of its choice for maintaining any incentive, the fees and expenses of which separate counsel shall be borne solely by Seller.

Section 6.06 Cooperation and Exchange of Information

. Seller and Buyer shall provide each other with such cooperation and information as either of them reasonably may request of the other in filing any Tax Return pursuant to this [Article VI](#) or in connection with any audit, maintaining any incentive, or other proceeding in respect of Taxes of the Company. Such cooperation and information shall include providing copies of relevant Tax Returns or portions thereof, together with accompanying schedules, related work papers and documents relating to rulings or other determinations by tax authorities. Each of Seller and Buyer shall retain all Tax Returns, schedules and work papers, records and other documents in its possession relating to Tax matters of the Company for any taxable period beginning before the Closing Date until the expiration of the statute of limitations of the taxable periods to which such Tax Returns and other documents relate, without regard to extensions except to the extent notified by the other party in writing of such extensions for the respective Tax periods. Prior to transferring, destroying or discarding any Tax Returns, schedules and work papers, records and other documents in its possession relating to Tax matters of the Company for any taxable period beginning before the Closing Date until the expiration of the statute of limitations of the taxable periods to which such Tax Returns relate, Seller or Buyer (as the case may be) shall provide the other party with reasonable written notice and offer the other party the opportunity to take custody of such materials.

Section 6.07 Tax Treatment of Indemnification Payments

. Any indemnification payments pursuant to this [Article VI](#) shall be treated as an adjustment to the Purchase Price by the parties for Tax purposes, unless otherwise required by Law.

Section 6.08 Survival

. Notwithstanding anything in this Agreement to the contrary, the provisions of [Section 3.21](#) and this [Article VI](#) shall survive for the full period of all applicable statutes of limitations (giving effect to any waiver, mitigation or extension thereof) plus sixty (60) days.

Section 6.09 Overlap

. To the extent that any obligation or responsibility pursuant to [Article VIII](#) may overlap with an obligation or responsibility pursuant to this [Article VI](#), the provisions of this [Article VI](#) shall govern.

ARTICLE VII

CONDITIONS TO CLOSING

Section 7.01 Conditions to Obligations of Buyer

. The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Buyer's waiver, at or prior to the Closing, of each of the following conditions:

(a) The representations and warranties of Seller contained in this Agreement, the other Transaction Documents and any certificate or other writing delivered pursuant hereto shall be true and correct in all material respects on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects), except for such representations and warranties that are qualified by words or phrases such as "material," "Material Adverse Effect," or similar qualifications, each of which shall be true and correct in all respects as of such dates.

(b) Seller shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

(c) No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Governmental Order which is in effect and has the effect of making the transactions contemplated by this Agreement illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated hereunder to be rescinded following completion thereof.

(d) No Action shall be pending, threatened, or commenced against Buyer, Seller or the Company, which, if adversely determined, would prevent or hinder the consummation of the transactions contemplated by this Agreement or result in the payment of substantial damages as a result of such transactions. No injunction or restraining order shall have been issued by any Governmental Authority, and be in effect, which restrains or prohibits any transaction contemplated hereby.

(e) All approvals, consents and waivers that are listed on [Section 3.05](#) of the Disclosure Schedules shall have been received, and executed counterparts thereof shall have been delivered to Buyer at or prior to the Closing.

(f) From the date of this Agreement, there shall not have occurred any Material Adverse Effect, nor shall any event or events have occurred that, individually or in the aggregate, with or without the lapse of time, could reasonably be expected to result in a Material Adverse Effect.

(g) The Transaction Documents (other than this Agreement) shall have been executed and delivered by the parties thereto and true and complete copies thereof shall have been delivered to Buyer.

(h) The Seller shall have executed and delivered the Seller Release to Buyer.

(i) Buyer shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Seller, that each of the conditions set forth in [Section 7.01\(a\)](#) and [Section 7.01\(b\)](#) have been satisfied.

(j) Buyer shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Seller (i) certifying that attached thereto are true and complete copies of (A) the certificate of incorporation and bylaws of the Company, with any amendments thereto, and (B) all resolutions adopted by the board of directors of Seller authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby, and (ii) certifying the names and signatures of the officers of Seller authorized to sign this Agreement, the Transaction Documents, and the other documents to be delivered hereunder and thereunder.

(k) Buyer shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of the Company (i) certifying that attached thereto are true and complete copies of (A) the certificate of incorporation and bylaws of the Company, with any amendments thereto, and (B) all resolutions adopted by the board of directors of the Company authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby, and (ii) certifying the names and signatures of the officers of the Company authorized to sign this Agreement, the Transaction Documents, and the other documents to be delivered hereunder and thereunder.

(l) Buyer shall have received resignations of the directors and officers of the Company pursuant to [Section 5.05](#).

(m) Seller shall have delivered to Buyer a good standing certificate (or its equivalent) for the Company from the secretary of state or similar Governmental Authority of the jurisdiction under the Laws in which the Company is organized.

(n) Seller shall have delivered to Buyer a certificate pursuant to Treasury Regulations §1.1445-2(b) that Seller is not a foreign person within the meaning of §1445 of the Code.

(o) Seller shall have delivered, or caused to be delivered, to Buyer stock certificates evidencing the Shares, free and clear of Encumbrances, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank and with all required stock transfer tax stamps affixed.

(p) Seller shall have delivered to Buyer such other documents or instruments as Buyer reasonably requests and are reasonably necessary to consummate the transactions contemplated by this Agreement.

(q) Buyer's due diligence investigation of the Company, whether performed before or after the date of this Agreement and including without limitation matters disclosed in the Disclosure Schedules, shall be satisfactory to Buyer in its sole discretion.

(r) Buyer and Seller shall have agreed upon the draft Allocation Schedule pursuant to [Section 6.04\(b\)](#).

(s) Seller shall have delivered to Buyer a closing statement reflecting the flow of funds at the Closing, duly executed by Seller.

(t) Seller shall have delivered to Buyer copies of the Payoff Letters reflecting all outstanding Company Debt and providing a mechanism for obtaining and/or filing any necessary termination statements or other releases, in each case as may be reasonably required to evidence the satisfaction of the Company Debt.

(u) Seller shall have delivered to Buyer a list of orders received by the Company for products that have not yet been filled and a copies of any agreements related to such unfilled orders.

(v) Since the date hereof, there shall not have been any Material Adverse Effect with respect to the Seller or the Company.

(w) The consummation of the transactions contemplated by the Asset Purchase Agreement dated as of the date hereof between Buyer and Seller regarding Buyer's purchase of the assets of Astec Underground, Inc. shall occur prior to or simultaneously with the Closing.

Section 7.02 Conditions to Obligations of Seller

The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Seller's waiver, at or prior to the Closing, of each of the following conditions:

(a) The representations and warranties of Buyer contained in this Agreement, the other Transaction Documents and any certificate or other writing delivered pursuant hereto shall be true and correct in all material respects on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects), except for such representations and warranties that are qualified by words or phrases such as "material," "Material Adverse Effect," or similar qualifications, each of which shall be true and correct in all respects as of such dates.

(b) Buyer shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

(c) No injunction or restraining order shall have been issued by any Governmental Authority, and be in effect, which restrains or prohibits any material transaction contemplated hereby.

(d) All approvals, consents and waivers that are required for the execution, delivery, and performance of this Agreement by Seller and the Company shall have been received, and executed counterparts thereof shall have been delivered to Seller at or prior to the Closing.

(e) The Transaction Documents (other than this Agreement) to which Buyer is a party shall have been executed and delivered by the Buyer and true and complete copies thereof shall have been delivered to Seller.

(f) Seller shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Buyer, that each of the conditions set forth in [Section 7.02\(a\)](#) and [Section 7.02\(b\)](#) have been satisfied.

(g) Seller shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Buyer (i) certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Buyer authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby, and (ii) certifying the names and signatures of the officers of Buyer authorized to sign this Agreement, the Transaction Documents, and the other documents to be delivered hereunder and thereunder.

(h) Buyer shall have delivered to Seller cash in an amount equal to the Purchase Price, subject to any adjustments in accordance with [Section 2.03\(a\)\(i\)](#), by wire transfer in immediately available funds, to an account designated by Seller in a written notice to Buyer.

(i) Buyer shall have delivered to Seller such other documents or instruments as Seller reasonably requests and are reasonably necessary to consummate the transactions contemplated by this Agreement.

(j) Buyer and Seller shall have agreed upon the draft Allocation Schedule pursuant to [Section 6.04\(b\)](#).

(k) The consummation of the transactions contemplated by the Asset Purchase Agreement dated as of the date hereof between Buyer and Seller regarding Buyer's purchase of the assets of Astec Underground, Inc. shall occur prior to or simultaneously with the Closing.

ARTICLE VIII

INDEMNIFICATION

Section 8.01 Survival

Subject to the limitations and other provisions of this Agreement, the representations and warranties contained herein (other than any representations or warranties contained in [Section 3.21](#) which are subject to [Article VI](#)) shall survive the Closing and shall remain in full force and effect until the date that is two (2) years from the Closing Date; *provided, that* the representations and warranties in [Section 3.01](#), [Section 3.02](#), [Section 3.03](#), [Section 3.18](#), [Section 3.21](#), [Section 3.27](#), [Section 4.01](#), and [Section 4.05](#) shall survive indefinitely and the representations and warranties in [Section 3.19](#) shall survive for the full period of all applicable statutes of limitations (giving effect to any waiver, mitigation or extension thereof) plus sixty (60) days (the representations and warranties contained in the sections referred to in this proviso are collectively, the "Fundamental Representations"). All covenants and agreements of the parties contained herein (other than any covenants or agreements contained in [Article VI](#) which are subject to [Article VI](#)) shall survive the Closing indefinitely or for the period explicitly specified therein. Notwithstanding the foregoing, any claims asserted in good faith with reasonable specificity (to the extent known at such time) and in writing by notice from the non-breaching party to the breaching party prior to the expiration date of the applicable survival period shall not thereafter be barred by the expiration of the relevant representation or warranty and such claims shall survive until finally resolved.

Section 8.02 Indemnification By Seller

Subject to the other terms and conditions of this [Article VIII](#), Seller shall indemnify and defend each of Buyer and its Affiliates (including the Company) and their respective Representatives (collectively, the "Buyer Indemnitees") against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Buyer Indemnitees based upon, arising out of, with respect to or by reason of:

(a) any inaccuracy in or breach of any of the representations or warranties of Seller or the Company contained in this Agreement or in any certificate or instrument delivered by or on behalf of Seller or the Company pursuant to this Agreement (other than in respect of [Section 3.21](#), it being understood that the sole remedy for any such inaccuracy in or breach thereof shall be pursuant to [Article VI](#)), as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of which will be determined with reference to such specified date);

(b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by Seller or the Company pursuant to this Agreement (other than any breach or violation of, or failure to fully perform, any covenant, agreement, undertaking or obligation in [Article VI](#), it being understood that the sole remedy for any such breach, violation or failure shall be pursuant to [Article VI](#));

(c) the Known Actions and the Known Judgments;

(d) any product liability, warranty, intellectual property, tort, or breach of contract Action related to products sold in connection with the Excluded Business;

(e) Actions for product or general liability arising from any incident or event that occurred prior to the Closing, subject to [Section 8.03\(c\)](#) and [Section 8.04\(c\)](#); or

(f) Actions covered under Seller's or the Company's existing employment practices liability policy.

Section 8.03 Indemnification By Buyer

Subject to the other terms and conditions of this [Article VIII](#), Buyer shall indemnify and defend each of Seller and its Affiliates and their respective Representatives (collectively, the "Seller Indemnitees") against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Seller Indemnitees based upon, arising out of, with respect to or by reason of:

(a) any inaccuracy in or breach of any of the representations or warranties of Buyer contained in this Agreement or in any certificate or instrument delivered by or on behalf of Buyer pursuant to this Agreement, as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of which will be determined with reference to such specified date);

(b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by Buyer pursuant to this Agreement (other than [Article VI](#), it being understood that the sole remedy for any such breach thereof shall be pursuant to [Article VI](#)); or

(c) The first \$1,000,000 of Loss with respect to each product or general liability Actions arising from any incident or event that occurred prior to the Closing.

(d) Any Third Party Claim made against any of the Seller Indemnitees arising from the past, present or future operation of the Company except for any matter for which Seller is obligated to indemnify Buyer Indemnitees from and against under [Section 8.02](#).

Section 8.04 Certain Limitations

The party making a claim under this [Article VIII](#) is referred to as the "Indemnified Party", and the party against whom such claims are asserted under this [Article VIII](#) is referred to as the "Indemnifying Party". The indemnification provided for in [Section 8.02](#) and [Section 8.03](#) shall be subject to the following limitations:

(a) The Indemnifying Party shall not be liable to the Indemnified Party for indemnification under [Section 8.02\(a\)](#) or [Section 8.03\(a\)](#), as the case may be, until the aggregate amount of all Losses in respect

of indemnification under [Section 8.02\(a\)](#) or [Section 8.03\(a\)](#) exceeds \$400,000 (the “Deductible”), in which event the Indemnifying Party shall only be required to pay or be liable for Losses in excess of the Deductible; provided that the Deductible shall not apply to or limit (i) claims under [Section 8.02\(a\)](#) or [Section 8.02\(b\)](#) with respect to any Fundamental Representation, (ii) claims covered under Seller’s or the Company’s existing employment practices liability policy, (iii) claims under [Section 8.02\(b\)](#), [Section 8.02\(c\)](#), [Section 8.02\(d\)](#), [Section 8.02\(e\)](#), [Section 8.02\(f\)](#), [Section 8.03\(b\)](#), [Section 8.03\(c\)](#), or [Section 8.03\(d\)](#), or (iv) claims for product or general liability, or (v) claims for fraud.

(b) The aggregate amount of all Losses for which an Indemnifying Party shall be liable pursuant to [Section 8.02\(a\)](#) or [Section 8.03\(a\)](#), as the case may be, shall not exceed \$10,000,000; provided that the foregoing limitation shall not apply to or limit (i) claims under [Section 8.02\(a\)](#) or [Section 8.02\(b\)](#) with respect to any Fundamental Representation, (ii) claims covered under Seller’s or the Company’s existing employment practices liability policy, (iii) claims under [Section 8.02\(b\)](#), [Section 8.02\(c\)](#), [Section 8.02\(d\)](#), [Section 8.02\(e\)](#), [Section 8.02\(f\)](#), [Section 8.03\(b\)](#), [Section 8.03\(c\)](#), or [Section 8.03\(d\)](#), or (iv) claims for fraud.

(c) [Section 8.04\(a\)](#) and [Section 8.04\(b\)](#) do not apply to Third Party Claims against the Company for product liability or general liability arising from any incident or event that occurred prior to the Closing Date; *provided, however*, Seller shall only be liable to Buyer to the extent the aggregate amount of all Losses arising from any such product liability or general liability claim is in excess of \$1,000,000.

(d) Payments by an Indemnifying Party pursuant to [Section 8.02](#) or [Section 8.03](#) in respect of any Loss shall be limited to the amount of any liability or damage that remains after deducting therefrom any insurance proceeds and any indemnity, contribution or other similar payment received or reasonably expected to be received by the Indemnified Party in respect of any such claim (net of any amounts expended by the Indemnified Party to collect such proceeds or payment). The Indemnified Party shall use its commercially reasonable efforts to recover under insurance policies or indemnity, contribution or other similar agreements for any Losses prior to seeking indemnification under this Agreement.

(e) In no event shall any Indemnifying Party be liable to any Indemnified Party for any punitive, incidental, consequential, special or indirect damages, including loss of future revenue or income, loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement, except to the extent the Indemnified Party is liable to a third party for such damages, or diminution of value or any damages based on any type of multiple.

(f) Each Indemnified Party shall take, and cause its Affiliates to take, reasonable steps to mitigate any Loss upon becoming aware of any event or circumstance that would be reasonably expected to, or does, give rise thereto.

(g) Seller’s liability under this [Article VIII](#) for any Losses based upon or arising out of any inaccuracy in or breach of any of the representations or warranties of Seller contained in this Agreement shall not be limited or diminished by any knowledge obtained by Buyer during its due diligence investigation in connection with the transactions contemplated by this Agreement.

Section 8.05 Indemnification Procedures

(a) **Third Party Claims.** If any Indemnified Party receives notice of the assertion or commencement of any Action made or brought by any Person who is not a party to this Agreement or an Affiliate of a party to this Agreement or a Representative of the foregoing (a “Third Party Claim”) against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) calendar days after receipt of such notice of such Third Party Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third Party Claim at the Indemnifying Party’s expense and by the Indemnifying Party’s own counsel, and the Indemnified Party shall cooperate in good faith in such defense; *provided, that* the Indemnified Party may not assume the defense of any Third Party Claim if (i) it involves potential criminal Liability of Buyer or any of its employees, (ii) relief other than monetary damages is sought, (iii) Buyer determines in good faith that the amount necessary to resolve such claims would exceed the amount recoverable under this Agreement, or (iv) it is asserted directly by or on behalf of a Person that is a supplier or customer of the Company. In the event that the Indemnifying Party assumes the defense of any Third Party Claim, subject to [Section 8.05\(b\)](#), the Indemnified Party shall have the right to participate in the defense of any Third Party Claim with counsel selected by it subject to the Indemnifying Party’s right to control the defense thereof. The fees and disbursements of such counsel shall be at the expense of the Indemnified Party, *provided, that* if in the reasonable opinion of counsel to the Indemnified Party, (A) there are legal defenses available to an Indemnified Party that are different from or additional to those available to the Indemnifying Party; or (B) there exists a conflict of interest between the Indemnifying Party and the Indemnified Party that cannot be waived, the Indemnifying Party shall be liable for the reasonable fees and expenses of counsel to the Indemnified Party in each jurisdiction for which the Indemnified Party determines counsel is required. Seller and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available (subject to the provisions of [Section 5.06](#)) records relating to such Third Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, management employees of the non-defending party as may be reasonably necessary for the preparation of the defense of such Third Party Claim. The Indemnifying Party will lose any previously acquired right to control the defense if for any reason it ceases to diligently conduct such defense.

(b) **Settlement of Third Party Claims.** Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into any settlement or compromise of, or entry of judgment with respect to, any Third Party Claim without the prior written consent of the Indemnified Party, unless the settlement, compromise, or judgment will not result in any liability or the creation of a financial or other obligation on the part of the Indemnified Party (including restrictions on future operations) and provides, in reasonable form, for the unconditional release of each Indemnified Party from all liabilities and obligations in connection with such Third Party Claim. If the Indemnified Party is controlling the defense pursuant to [Section 8.05\(a\)](#), it may agree in good faith to any settlement or compromise of, or entry of a judgment with respect to such Third Party Claim.

(c) **Direct Claims.** Any Action by an Indemnified Party on account of a Loss which does not result from a Third Party Claim (a “Direct Claim”) shall be asserted by the Indemnified Party giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) days after the Indemnified Party becomes aware of such Direct Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have thirty (30) days after its receipt of such notice to respond in writing to such Direct Claim. The Indemnified Party shall allow the Indemnifying Party and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Party shall assist the Indemnifying Party’s investigation by giving such information and assistance (including access to the Company’s premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request. If the Indemnifying Party does not so respond within such thirty (30) day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

(d) **Cooperation.** Upon a reasonable request by the Indemnifying Party, each Indemnified Party seeking indemnification hereunder in respect of any Direct Claim, hereby agrees to consult with the Indemnifying Party and act reasonably to take actions reasonably requested by the Indemnifying Party in order to attempt to reduce the amount of Losses in respect of such Direct Claim. Any costs or expenses associated with taking such actions shall be included as Losses hereunder.

(e) **Tax Claims.** Notwithstanding any other provision of this Agreement, the control of any claim, assertion, event or proceeding in respect of Taxes of the Company (including, but not limited to, any such claim in respect of a breach of the representations and warranties in [Section 3.21](#) hereof or any breach or violation of or failure to fully perform any covenant, agreement, undertaking or obligation in [Article VI](#)) shall be governed exclusively by [Article VI](#) hereof.

Section 8.06 Payments

Once a Loss is agreed to by the Indemnifying Party or finally adjudicated to be payable pursuant to this [Article VIII](#), the Indemnifying Party shall satisfy its obligations within five (5) Business Days of such final, non-appealable adjudication by wire transfer of immediately available funds. The parties hereto agree that should an Indemnifying Party not make full payment of any such obligations within such five (5) Business Day period, any amount payable shall accrue interest from and including the date of agreement of the Indemnifying Party or final, non-appealable adjudication to the date such payment has been made at a rate per annum equal to 8%. Such interest shall be calculated daily on the basis of a 360 day year and the actual number of days elapsed.

Section 8.07 Tax Treatment of Indemnification Payments

All indemnification payments made under this Agreement shall be treated by the parties as an adjustment to the Purchase Price for Tax purposes, unless otherwise required by Law.

Section 8.08 Exclusive Remedies

Subject to [Section 5.07](#) and [Section 10.11](#), the parties acknowledge and agree that their sole and exclusive remedy with respect to any and all claims (other than claims arising from fraud, criminal activity or willful misconduct on the part of a party hereto in connection with the transactions contemplated by this Agreement) for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement, shall be pursuant to the indemnification provisions set forth in [Article VI](#) and this [Article VIII](#). In furtherance of the foregoing, each party hereby waives, to the fullest extent permitted under Law, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement it may have against the other parties hereto and their Affiliates and each of their respective Representatives arising under or based upon any Law, except pursuant to the indemnification provisions set forth in [Article VI](#) and this [Article VIII](#). Nothing in this [Section 8.08](#) shall limit any Person’s right to seek and obtain any equitable relief to which any Person shall be entitled or to seek any remedy on account of any party’s fraudulent, criminal or intentional misconduct.

ARTICLE IX

TERMINATION

Section 9.01 Termination

. This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of Seller and Buyer;

(b) by Buyer by written notice to Seller if:

(i) Buyer is not then in material breach of any provision of this Agreement and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Seller pursuant to this Agreement that would give rise to the failure of any of the conditions specified in [Article VII](#) and such breach, inaccuracy or failure has not been cured by Seller within ten (10) days of Seller's receipt of written notice of such breach from Buyer; or

(ii) any of the conditions set forth in [Section 7.01](#) shall not have been, or if it becomes apparent that any of such conditions will not be, fulfilled by November 30, 2012, unless such failure shall be due to the failure of Buyer to perform or comply in all material respects with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;

(c) by Seller by written notice to Buyer if:

(i) Neither Seller nor the Company is then in material breach of any provision of this Agreement and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Buyer pursuant to this Agreement that would give rise to the failure of any of the conditions specified in [Article VII](#) and such breach, inaccuracy or failure has not been cured by Buyer within ten (10) days of Buyer's receipt of written notice of such breach from Seller; or

(ii) any of the conditions set forth in [Section 7.02](#) shall not have been, or if it becomes apparent that any of such conditions will not be, fulfilled by November 30, 2012, unless such failure shall be due to the failure of Seller to perform or comply in all material respects with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing; or

(d) by Buyer or Seller in the event that (i) there shall be any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited or (ii) any Governmental Authority shall have issued a Governmental Order restraining or enjoining the transactions contemplated by this Agreement, and such Governmental Order shall have become final and non-appealable.

Section 9.02 Effect of Termination

. In the event of the termination of this Agreement in accordance with this Article, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except as set forth in this [Article IX](#) hereof, [Section 5.11](#) and [Section 10.01](#).

ARTICLE X

MISCELLANEOUS

Section 10.01 Expenses

. Except as otherwise expressly provided herein, all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred. Seller shall be responsible for any of the foregoing costs incurred by the Company and for any employee incentive, defined compensation or bonus expenses and any payroll or other employer tax liability that arises out of amounts payable as a result of the Closing.

Section 10.02 Notices

. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this [Section 10.02](#)):

If to Seller or the Company:

ASTECH INDUSTRIES, INC.
1725 Shepherd Road
Chattanooga, TN 37421
Facsimile: (423) 899-4456
E-mail: tcampbell@astecindustries.com
Attention: Tom Campbell, Vice President

with a copy to:

CHAMBLISS, BAHNER & STOPHEL, P.C.
1000 Tallan Building
Two Union Square
Chattanooga, TN 37402
Facsimile: (423) 508-1229
E-mail: sjett@cbslawfirm.com
Attention: E. Stephen Jett

If to Buyer:

THE CHARLES MACHINE WORKS, INC.
P. O. Box 66
1959 W. Fir Avenue
Perry, OK 73077-0066
Facsimile: (580) 572-3563
E-mail: rjohnson@ditchwitch.com
Attention: Rick Johnson, Chief Operating Officer

with a copy to:

McAFEE & TAFT A PROFESSIONAL CORPORATION
10th Floor, Two Leadership Square
211 N. Robinson
Oklahoma City, OK 73102
Facsimile: (405) 228-7301
E-mail: josh.smith@mcafeetaft.com
Attention: Joshua D. Smith

Section 10.03 Interpretation

. For purposes of this Agreement, (a) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation"; (b) the word "or" is not exclusive; and (c) the words "herein," "hereof," "hereby," "hereto" and "hereunder" refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Schedules and Exhibits mean the Articles and Sections of, and Schedules and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Schedules and Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

Section 10.04 Headings

. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

Section 10.05 Severability

. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as

originally contemplated to the greatest extent possible.

Section 10.06 Entire Agreement

. This Agreement and the other Transaction Documents constitute the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency between the statements in the body of this Agreement and those in the other Transaction Documents, the Exhibits and Disclosure Schedules (other than an exception expressly set forth as such in the Disclosure Schedules), the statements in the body of this Agreement will control.

Section 10.07 Successors and Assigns

. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither party may assign its rights or obligations hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed; provided that Buyer may assign its rights to acquire the Shares to any wholly owned subsidiary of Buyer without any other party's consent. No assignment shall relieve the assigning party of any of its obligations hereunder.

Section 10.08 No Third-party Beneficiaries

. This Agreement is for the sole benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 10.09 Amendment and Modification; Waiver

. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each party hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

Section 10.10 Governing Law

. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Tennessee without giving effect to any choice or conflict of law provision or rule (whether of the State of Tennessee or any other jurisdiction) that would cause the application of Laws of any jurisdiction other than those of the State of Tennessee.

Section 10.11 Specific Performance

. The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

Section 10.12 Counterparts

. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

Section 10.13 Waiver of Jury Trial

. THE PARTIES IRREVOCABLY WAIVE ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION HELD IN ANY COURT ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. THE PARTIES AGREE THAT ANY SUCH ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

SELLER:

ASTEC INDUSTRIES, INC.

By /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: Group Vice President – Underground Group

COMPANY:

AMERICAN AUGERS, INC.

By /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: President

BUYER:

THE CHARLES MACHINE WORKS, INC.

By /s/ Tiffany Sewell-Howard

Name: Tiffany Sewell-Howard

Title: Chief Executive Officer

[Signature Page to Stock Purchase Agreement]

Schedule 1.01(a) – Knowledge of Seller

FOR THE PURPOSE OF EXECUTING THIS AGREEMENT AS OF THE DATE OF EXECUTION:

<u>American Augers, Inc. Corporate Officers</u>	<u>Titles</u>
Thomas R. Campbell	Chairman of the Board
Stephen C. Anderson	Secretary
David C. Silvious	Assistant Secretary/Treasurer

FOR THE PURPOSE OF EXECUTING THE BRING-DOWN CERTIFICATE UNDER SECTION 7.01(i), THE PERSONS LISTED ABOVE AND ALSO:

Dan Sharpe

Dave Hammond

Sharon Oliver

Brad Dolan

Tammy Williams

Gary Heinemann

Kevin Slarb

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Schedule 2.02 Illustration of Purchase Price Calculation

American Augers	30-Sep-12	Vertical Inventory & Other Excluded Items	Net
Cash	16,115	-	16,115
Accounts Receivable - Net	4,790,668	94,155	4,696,513
Notes and Other Receivables	460,271	-	460,271
Inventory - Net	30,545,946	5,369,109	25,176,837
Rental Inventory - Net	3,993,975	-	3,993,975
Prepaid Expenses & Other Current Assets	217,315	-	217,315
Intercompany Receivables	556,400	556,400	-
Current Assets	40,580,690	6,019,664	34,561,026
Property, Plant and Equipment	22,123,569	41,424	22,082,145
Accumulated Depreciation	(8,437,032)	(31,759)	(8,405,273)
Net Leased Equipment	2,557,049	2,557,049	-
Net Property, Plant & Equipment	16,243,586	2,566,714	13,676,872
Other Assets	415,487	-	415,487
Total Other Assets	415,487	-	415,487
Total Assets	<u>57,239,763</u>	<u>8,586,378</u>	<u>48,653,385</u>
Accounts Payable	3,410,197	1,087,711	2,322,486
Accrued & Other	4,006,422	219,730	3,786,692
Advances from Corporate	35,437,764	35,437,764	-
Accrued Warranty	1,976,309	219,390	1,756,919

Calculation of AA Purchase Price

Net Book Value of AA Assets	48,653,385
Less Accounts Payable	2,322,486
Less Accrued and Other	3,786,692
Less Accrued Warranty	1,756,919
	<u>40,787,288</u>
Plus	6,000,000
Purchase Price	<u>46,787,288</u>

Schedule 3.02 – Jurisdictions in which the Company is Licensed or Qualified to do Business

1. DE (6/2/89)
2. FL (3/4/10)
3. GA (09/23/11)
4. MS (5/24/06)
5. MO (6/12/09)
6. OH (6/8/89)
7. TX (10/11/01)
8. VA (6/27/06)

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Schedule 3.05 Required Approvals, Consents and Waivers

None

Schedule 3.09(a) Material Contracts

- Total Print Management Agreement between American Augers, Inc. and MT Technologies, Inc. (Lease of 8 Ricoh Copiers expiring in 2014)
- Total Print Management Agreement between American Augers, Inc. and MT Technologies, Inc. (Lease of 1 Ricoh Copier expiring in 2014)
- Lease of Ultimail 65X with Greater Bay Capital dated January 8, 2009 (expiring in 2013)
- International Agent Agreement between American Augers, Inc. and SC JUST Consulting SRL (Romania) dated effective December 3, 2012 (requiring 90 days' notice to terminate)
- International Agent Agreement between American Augers, Inc. and ASTRA Holdings LTD (Venezuela and Colombia) dated effective September 1, 2012 (requiring 90 days' notice to terminate)
- International Agent Agreement between American Augers, Inc. and Queensland Drilling Supplies LTD (Australia and New Guinea) dated effective March 30, 2012 (requiring 90 days' notice to terminate)
- Agreement between American Augers, Inc. and Osborne Engineered (Pty) Ltd SA (Africa) dated September 9, 2011
- License Agreement with Asian Underground Pvt. Limited dated January 25, 2011
- Distribution Agreement between Digital Control Incorporated Products and American Augers, Inc. dated effective January 2, 2012
- Supply Agreement between Sherwin-Williams Automotive Finishes Corp. and American Augers, Inc. dated effective May 1, 2009 to purchase all applicable paint products from this vendor
- International Agent Agreement Offer Letter with Rodolfo Sepulveda
- International Agent Agreement Offer Letter with Dave Stewart dated October 5, 2011
- Employee Indemnity Agreement between Guy Randall and American Augers, Inc. dated August 11, 2005
- Non-Disclosure Agreement between American Augers, Inc. and Colli Drill dated May 24, 2005
- Agreement for Use and Non-Disclosure of Proprietary Information between Stewart & Stevenson Services, Inc. and American Augers, Inc. dated July 13, 2004
- Oral dealer agreement with Northwest Leasing (Russia)
- Contract for 500 Metric Ton HDD Rig, Model DD-1100RS and related performance letter of credit between China Huan Qiu Contracting & Engineering Corp. (HQCEC) and American Augers, Inc. dated June 30, 2011
- Contract for 500 Metric Ton HDD Rig, Model DD-1100, and MGS Wireline Guiding System, Model AP750, and related performance letter of credit between China Huan Qiu Contracting & Engineering Corp. (HQCEC) and American Augers, Inc. dated October 9, 2012
- Seller is also providing Buyer electronic copies reports listing all open sales orders and open purchase orders as of 10/25/2012
- Joint Venture Agreement between American Augers, Inc. and H.A.D., Inc. dated August 1, 2011 (this agreement relates to the Excluded Business and is not to be transferred to The Charles Machine Works, Inc.)

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Open Rental Agreements to Customers:

CUSTOMER	CUST #	PRODUCT AND/OR SERIAL NUMBER	COST W/O TAX/FRT.	PURCH. PRICE W/O TAX/FRT
AARON ENTERPRISES	AARON	MPR6000/33-05-12	\$ 405,274.69	\$ 551,935.00
ANDERSON EXC., LLC	ANDEXC	NG36-600/403-12-10	\$ 98,686.77	\$ 123,000.00
BOVE INDUSTRIES, INC.	BOVEIN	48/54-900, NG48/54-900/254-04-12	\$ 161,895.33	\$ 217,772.00
BROTHERTON PIPELINE	BROTHE	P-600 S/N P600/08-03-12	\$ 236,681.04	\$ 339,500.00
ENGINEERS CONST.	ENGINE	AB24/30-150/071-07-11	\$ 36,096.76	\$ 47,927.00
Total			\$ 938,634.59	\$ 1,280,134.00

Section 3.09(a)(xv)
 Contracts with Severance, Retention or Change of Control Benefits

None

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Schedule 3.10(b) Real Property

Parcel #	Address	Status	Description	Current User
D11-022-0-0016-01	841 Township Road 133, West Salem Ohio 44287	Owned by American Augers	13.41 acre with a house	Residential lease
D11-022-0-0015-00	135 US State Route 42, West Salem Ohio 44287	Owned by American Augers	27.74 acres with office & mfg bldgs	Manufacturing and office
D11-022-0-0018-00	133 US State Route 42, West Salem Ohio 44287	Owned by American Augers	5.22 acres with warehouse & maintenance	Warehousing and maintenance
D11-022-0-0002-03	157 US State Route 42, West Salem Ohio 44287	Owned by American Augers	2.25 acres with a garage on it	No current use

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AMERICAN AUGERS TRADEMARKS

REGISTRATION #	MARK	REGISTRATION DATE	STATUS
3684852	AMERICAN AUGERS AN ASTEC COMPANY *	9/22/09	9/22/15 – Section 8 & 15
3684851	AMERICAN AUGERS AN ASTEC COMPANY & design*	9/22/09	9/22/15 – Section 8 & 15
3618960	AMERICAN DIRECTIONAL DRILL	5/12/09	5/12/15 – Section 8 & 15
3011691	WIGGLE STEER	11/1/05	11/1/15 – Section 8 & 9
2693184	QUIET-PAK & design	3/4/03	3/4/13 – Section 8 & 9
2435544	ES!LOK **	3/13/01	3/13/21 – Section 8 & 9
2191625	AMERICAN AUGERS	9/22/98	9/22/18 – Section 8 & 9
1484016	BORES HEAD	4/12/88	4/12/18 – Section 8 & 9

*Trademarks referencing the “Astec” name will not be retained.

** Exclusive, paid-up license, with right to sublicense, granted to The Toro Company for use in connection with utility trenchers having engines with no more than 125 HP and utility horizontal directional drills that are capable of generating a pullback force of no more than 50,000 lbs-force.

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AMERICAN AUGERS PATENTS

APPLICATION #	FILING DATE	TITLE	PATENT #	ISSUE DATE	STATUS
12/800,669	5/20/10	Guided Boring Machine and Method	8210774	7/3/12	1 st Maint. Fee – 1/3/16
12/044,784	1/30/08	Apparatus and Method for Pipe Handler (V)	8157495	4/17/12	1 st Maint. Fee – 10/17/15
12/800,670	5/20/10	Boring Machine With Conveyor System for Cuttings and Method for Boring therewith	8113741	2/14/12	1 st Maint. Fee – 8/14/15
12/005,747	12/28/07	Apparatus and Method for a Drilling Assembly (V)	8033345	10/11/11	1 st Maint. Fee – 4/11/15
11/337,417	1/23/06	Column Selector for Pipe Section Magazine of Directional Drill	7544036	6/9/09	2 nd Maint. Fee – 12/10/16
11/657,370	1/24/07	Control System	7500530*	3/10/09	2 nd Maint. Fee – 9/10/16
11/388,196	1/24/06	Hydraulic Fluid Tank for Drilling Machine	7497274*	3/3/09	2 nd Maint. Fee – 9/4/16
11/116,490	4/28/05	Apparatus and Method for Modified HDD Assembly (V)	7318491	1/15/08	2 nd Maint. Fee – 7/15/15
11/019,980	12/21/04	Method for Manufacturing Track for Auger Boring Machine	7255406	8/14/07	2 nd Maint. Fee – 2/14/14
10/886,808	7/8/04	Drive Mechanism for Boring Machine	7134513	11/14/06	2 nd Maint. Fee – 5/14/14
09/942,800	8/30/01	Equipment Lockout System	7079813*	7/18/06	2 nd Maint. Fee – 1/18/14
10/300,535	1/21/02	Apparatus for Use in Enlarging a Borehole	6929078	8/16/05	2 nd Maint. Fee – 2/20/13
09/158,418	9/22/98	Construction Equipment Lockout System with Emergency Shutdown	6285860*	9/4/01	3 rd Maint. Fee – 3/4/13
12/800,667	5/20/10	Boring Machine Steering System with Force Multiplier			pending
12/800,668	5/20/10	Boring Machine for Multiple Product Sizes			pending
13/545,133	7/10/12	Apparatus and Method for a Drilling Rig Assembly (V)			pending
12/548,318	9/3/09	Drill Pipe Handling Assembly (V)			pending
Draft patent application		Tool For Use On Exit Side Of Bore			Draft (98% complete)
Australia	4/30/04	Modified HDD (V)	244146	6/3/10	Annuity due 4/28/13
Canada	4/28/05	Modified HDD (V)	2564357	3/22/11	Annuity due 4/28/13
China	4/28/05	Modified HDD (V)	CN1985066B	6/1/11	Annuity due 4/28/13
Germany	4/28/05	Modified HDD (V)	1751390	8/10/11	Annuity due 4/28/13
France	4/28/05	Modified HDD (V)	1751390	8/10/11	Annuity due 4/18/13
Italy	4/28/05	Modified HDD (V)	1751390	8/10/11	Annuity due 4/28/13
Russia	4/30/04	Modified HDD (V)	2382165	2/10/11	Annuity due 4/28/13
Spain	4/30/04	Modified HDD (V)	1751390	8/10/11	Annuity due 4/28/13
UK	4/30/04	Modified HDD (V)	1751390	8/10/11	Annuity due 4/24/13

* Exclusive, paid-up license, with right to sublicense, granted to The Toro Company for use in connection with utility trenchers having engines with no more than 125 HP and utility horizontal directional drills that are capable of generating a pullback force of no more than 50,000 lbs-force.

(V) relates to vertical drilling technology – not to be transferred to The Charles Machine Works, Inc.

Schedule 3.14 Accounts Receivable 09/30/2012

Comp Name	CustNumber Domestic	CustName	CustCity	Cust State	Total
AA	REM	REM SERVICES INC	BOLIGEE	AL	296
AA	AMMONS	AMMONS & BLACKMON CONSTRUCTION	SPANISH FORT	AL	8,033
AA	BOANCO	BOAN CONTRACTING CO INC	GREENVILLE	AL	22,282
AA	KLAASM	KLAASMEYER CONST CO INC	CONWAY	AR	2,037
AA	SPECI2	SPECIALIZED SERVICES CO	PHOENIX	AZ	1,941
AA	SEDIRE	SOUTHEAST DIRECTIONAL DRILLING LLC	CASA GRANDE	AZ	63,946
AA	OZDIREC	O Z DIRECTIONAL DRILLING LLC	SCOTTSDALE	AZ	114,772
AA	HDDCOM	THE H D D COMPANY INC	CAMERON PARK	CA	94
AA	HANMIG	A.C.E. TRADING INTERNATIONAL	IRVINE	CA	16,576
AA	USPIO1	PIONEER TECHNOLOGY LLC	SAN RAMON	CA	21,752
AA	BTCONS	BT CONSTRUCTION INC	HENDERSON	CO	4,196
AA	GLOBALUNDER	GLOBAL UNDERGROUND CORP	COLORADO SPRINGS	CO	16,787
AA	CROSSC	CROSS COUNTRY PIPELINE SPLY CO	AURORA	CO	98,708
AA	GEORG5	GEORGE & LYNCH INC	DOVER	DE	2,951
AA	MCRAE	MCRAE ENTERPRISES INC	SAINT CLOUD	FL	328
AA	MTIEQU	MTI EQUIPMENT INC	ENGLEWOOD	FL	503
AA	ADSINC	ACCURATE DRILLING SYSTEMS INC (ADS)	LABELLE	FL	3,070
AA	VERME6	VERMEER SOUTHEAST SALES & SVC	FORT MYERS	FL	5,259
AA	D&GBOR	D&G BORING INC	SMYRNA	GA	365
AA	BENTON	BENTON-GEORGIA INC	DOUGLASVILLE	GA	23,674
AA	IOWAT	IOWA TRENCHLESS LLC	PANORA	IA	1,024
AA	MIDWE5	MIDWEST UNDERGROUND INC	EAST MOLINE	IL	(9,606)
AA	PROCIS	PRECISION BORING INC	GURNEE	IL	(0)
AA	CENTRA	CENTRAL BORING INC	LINCOLNSHIRE	IL	40
AA	MIDAM1	MID AMERICA UNDERGROUND LLC	AURORA	IL	3,898
AA	MEARS	MEARS GROUP INC	COLLINSVILLE	IL	17,948
AA	SNEDEG	SNEDEGAR CONSTRUCTION INC	BLOOMINGTON	IN	137
AA	ROBER1	ROBERTS PIPE LINE CONST INC	SULPHUR SPRINGS	IN	1,502
AA	JOMAX	JOMAX CONSTRUCTION CO INC	GREAT BEND	KS	2,565
AA	KANSA2	AUGERS UNLIMITED	BONNER SPRINGS	KS	8,667
AA	APICON	API CONTRACTORS	CALVERT CITY	KY	1,766
AA	TUNNE4	TUNNELING & GROUTING PLUS	SOUTH SHORE	KY	5,050
AA	MARLET	MARLET INC	SCOTTSDALE	KY	7,889
AA	PRICE2	PRICE BACKHOE SERVICE INC	SCIENCE HILL	KY	18,848
AA	DIRECS	DIRECTIONAL SERVICE SOUTH LLC	BOSSIER CITY	LA	(114)
AA	WICKER	WICKER CONSTRUCTION INC	SHREVEPORT	LA	1,990
AA	LAGREC	LAGRECA SERVICES INC	SCHRIEVER	LA	9,097
AA	JANCOD	JAN'S CONSTRUCTION CO INC	IOWA	LA	24,113
AA	SPRING	SPRING AND ASSOCIATES INC	EASTON	MD	646
AA	DVMUTI	D.V.M. UTILITIES INC	STERLING HEIGHTS	MI	145
AA	RTCONS	R/T BORING INC	HOMER	MI	2,761
AA	UTILITY	UTILITY SERVICES AUTHORITY LLC	BELLEVILLE	MI	10,895
AA	PREC13	PRECISION PIPELINE	FENTON	MI	15,643
AA	ASSOMI	ASSOCIATED CONSTRUCTORS LLC	MARQUETTE	MI	18,373
AA	SJLOUI	S J LOUIS CONSTRUCTION INC	ROCKVILLE	MN	(2,994)
AA	KRAEME	EDWARD KRAEMER & SONS INC	BURNSVILLE	MN	(316)
AA	LOUISH	S J LOUIS HDD SERVICE LLC	ROCKVILLE	MN	194
AA	CHARPS	CHARPS WELDING AND FABRICATING INC	CLEARBROOK	MN	626
AA	EJMPIP	EJM PIPE SERVICES INC	LINO LAKES	MN	1,279
AA	AARROW	AARROW BORING INC	BRIDGETON	MO	945
AA	DELTAD	DELTA DIRECTIONAL LLC	NEWTON	MS	805
AA	IVYTES	IVY TESTING SERVICES INC	MORTON	MS	5,522
AA	GBBOOT	BOOTS SMITH OIL FIELD SERVICES LLC	LAUREL	MS	11,399
AA	HDDLCC	HDD LLC	KALISPELL	MT	5,152
AA	COLEM1	MIKE COLEMAN CONST INC	DILLON	MT	46,609
AA	SANDER	SANDERS UTILITY CONST CO INC	CHARLOTTE	NC	55
AA	HODGE	RALPH HODGE CONSTRUCTION CO	WILSON	NC	7,348
AA	CENTRE	CENTRAL TRENCHING INC	MINOT	ND	11,942
AA	HORIZ	HORIZONTAL BORING & TUNNELING CO	EXETER	NE	6,237
AA	MELCAR	MELCAR UNDERGROUND	OXFORD	NJ	(671)
AA	HENKE2	HENKELS & MCCOY INC	BURLINGTON	NJ	99
AA	KMETZ	KMETZ INC	EAST BRUNSWICK	NJ	5,772
AA	CARSO1	CARSON & ROBERTS SITE CONST	LAFAYETTE	NJ	19,042
AA	DHUNDE	D H UNDERGROUND INC	ALBUQUERQUE	NM	(33)
AA	BABCOE	BABCOCK UTILITIES	GASPORT	NY	556
AA	CASEBO	CASE BORING CORPORATION	GASPORT	NY	584
AA	RAUSCH	D C RAUSCHER INC	WATERLOO	NY	795
AA	PRECIS	PRECISION DIRECTIONAL DRILLING	EAST GREENBUSH	NY	1,236
AA	HIGHLA	HIGHLANDER CONSTRUCTION INC	MEMPHIS	NY	1,955
AA	MERIEIN	MERIDIEN ENERGY LLC	RANDOLPH	NY	3,295
AA	IAGCIR	AGC IRRIGATION SUPPLY	HOLBROOK	NY	4,432
AA	BOVEIN	BOVE INDUSTRIES INC	EAST SETAUKET	NY	38,062
AA	BASKO	BASKO TECHNIKS GROUP LLC	BROOKLYN	NY	65,181
AA	K&BLUM	K & B LUMBER	MILLERSBURG	OH	(725)
AA	H&HENT	H & H ENTERPRISES INC	ANDOVER	OH	89
AA	MKMETAL	MK METAL PRODUCTS INC	MANSFIELD	OH	225
AA	GENEVA	A2 SERVICES LLC	GENEVA	OH	359
AA	K&DEQU	K & D EQUIPMENT	IBERIA	OH	624
AA	DREIBE	WALTER DREIBELBIS EXC & BORING	WEST SALEM	OH	1,057
AA	REINHA	REINHARD BORING TECHNOLOGIES INC	TIPP CITY	OH	1,298
AA	SMALLEY	UNDERGROUND PROFESSIONALS INC	ASHLAND	OH	3,675
AA	DRSENT	D R S ENTERPRISES INC	CLEVELAND	OH	19,359
AA	HAD	H A D INC	RITTMAN	OH	29,896
AA	S&S	S & S ROAD BORING INC	WHEATLAND	OK	216
AA	SHEEH10	SHEEHAN PIPE LINE CONST CO	TULSA	OK	368
AA	LEWISCO	J D LEWIS CONSTRUCTION CO	HEALDTON	OK	537
AA	BELLER	B & H CONSTRUCTION LLC	GOLDSBY	OK	4,188
AA	GATEWA	GATEWAY DIRECTIONAL DRILLING LLC	EDMOND	OK	8,224
AA	KERRPU	KERR MACHINE COMPANY	SULPHUR	OK	12,436
AA	AKERMA	AKERMAN CONSTRUCTION CO INC	PURCELL	OK	38,315
AA	GONZAL	GONZALES BORING AND TUNNELING	NORTH PLAINS	OR	46
AA	ARMADI	ARMADILLO UNDERGROUND INC	SALEM	OR	148
AA	KINNAN	KINNAN ENGINEERING INC	CAMAS VALLEY	OR	380

AA	ROCKFO	ROCKFORD CORPORATION	HILLSBORO	OR	1,724
AA	BROTHE	BROTHERTON PIPELINE INC	GOLD HILL	OR	85,439
AA	AARCON	AARCON ENTERPRISES INC	TRAFFORD	PA	(32,187)
AA	ODESSY	ODESSY COMMUNICATIONS LLC	BELLE VERNON	PA	31
AA	HERRHO	LIGONIER CONSTRUCTION INC	LAUGHLINTOWN	PA	661
AA	HARGER	HARGER UTILITY CONTRACTORS INC	LOCK HAVEN	PA	3,703
AA	HENKEL	HENKELS & MCCOY INC	BLUE BELL	PA	4,633
AA	PRECPA	PRECISION PIPELINE LLC	TROY	PA	6,050
AA	PARIS	ALEX E PARIS CONTR CO INC	ATLASBURG	PA	9,432
AA	WISEEX	BILL WISE EXCAVATING INC	NEW FREEPORT	PA	14,464
AA	PREC11	PRECISION PIPELINE LLC	WYALUSING	PA	16,366
AA	AARON	AARON ENTERPRISES INC	YORK	PA	27,536
AA	SUPERI	SUPERIOR UTILITY EXCAVATING INC	GREENSBURG	PA	38,437
AA	SUMMER	SUMMERS-TAYLOR INC	ELIZABETHTON	TN	453
AA	HUNTER	HUNTER & SON TRUCKING & EXC	GALLATIN	TN	1,135
AA	MIDSO3	MID SOUTH UTILITY CONTRACTOR	LEBANON	TN	13,391
AA	APPAL2	APPALACHIAN PIPELINE RESOURCES LLC	HENDERSONVILLE	TN	917,515
AA	LOGIST	LOGISTICS TRANSPORTATION SVCS INC	PORTER	TX	(41,273)
AA	ROBIN	TEX-DIRECT DRILLING LLC	PORTER	TX	(50)
AA	ASSOCP	ASSOCIATED PIPE LINE CONTRS INC	HOUSTON	TX	204
AA	PRIC17	PRICE GREGORY INTERNATIONAL	HOUSTON	TX	276
AA	SHELT1	SHELTON & SHELTON PLUMBING LP	KILLEEN	TX	381
AA	WESTTE	WEST TEXAS BORING CO	ODESSA	TX	703
AA	TWSDRI	TWS DRILLING & CONST LLC	BIG SANDY	TX	1,401
AA	BRYAN2	BRYANT & FREY CONST CO INC	WACO	TX	1,448
AA	BORCO	BORCO LP	HOUSTON	TX	6,139
AA	FUTDIR	FUTURE TELECOM INC	MESQUITE	TX	7,441
AA	WESTE1	WESTERN SUPPLIES INC	WICHITA FALLS	TX	8,018
AA	ENVIR3	ENVIRONMENTAL CROSSINGS INC	CONROE	TX	19,361
AA	TRANSA	TRANSAMERICAN UNDERGROUND LTD	FLOWER MOUND	TX	26,833
AA	PREC12	PRECISION PIPELINE LLC	DEL RIO	TX	97,568
AA	RITAIN	RITA INC	PHARR	TX	157,387
AA	SHEE15	SHEEHAN PIPE LINE CONST CO	MANASSAS	VA	101,860
AA	BORE-TECH	BORE TECH LLC	SAINT JOHNSBURY	VT	1,220
AA	ENGINE	ENGINEERS CONSTRUCTION INC	SOUTH BURLINGTON	VT	9,392
AA	PHILCH	PILCHUCK CONTRACTORS INC	KIRKLAND	WA	5,098
AA	UNLTD5	UNLIMITED SERVICES OF WI INC	OCONTO	WI	152
AA	SCHMWI	SCHMID PIPELINE CONST INC	MAYVILLE	WI	2,727
AA	GABES	GABE'S CONSTRUCTION CO INC	SHEBOYGAN	WI	10,326
AA	MICHEL	MICHELS CORPORATION	BROWNSVILLE	WI	15,379
AA	INTERC	INTERCON CONSTRUCTION INC	WAUNAKEE	WI	28,498
AA	PREC15	PRECISION PIPELINE LLC	EAU CLAIRE	WI	127,500
AA	GENERAL	GENERAL PIPELINE CONST INC	AMMA	WV	(44)
AA	BOSLEY	BOSLEY CONSTRUCTION	MINERAL WELLS	WV	37
AA	SNYENV	SNYDER ENVIRONMENTAL SERVICES	KEARNEYSVILLE	WV	2,003
AA	DUNNEX	JIMMY A DUNN EXCAVATING CO	SISSONVILLE	WV	3,736
AA	ANDEXC	ANDERSON EXCAVATING LLC	MORGANTOWN	WV	6,064
		Total Domestic			2,615,240

International

AA	FLOWT2	FLOWTEX HDD S.A.	BUENOS AIRES	-AR	1,709
AA	AROGEN	O'MELEY & PARTNERS PTY LTD	LAMBTON NSW 2299	-AU	(1,665)
AA	QDSPTY	Q.D.S. PTY LTD	ARUNDEL, QUEENSLAND	-AU	246
AA	TEXNO	TEXNO SERVICE LLC	BAKU	-AZ	12,979
AA	PETROL	PETROLINK INTERNATIONAL	MANAMA, KINGDOM OF	-BH	3,465
AA	MAPSOL	MAPSOLO ENGENHARIA LTDA	COTIA, SP / 06715-862	-BR	(3,263)
AA	MEGADR	MEGADRILL S AMERICA ENGENHARIA	GUARULHOS, SP - CEP	-BR	5,007
AA	BRASFO	BRASFOND FUNDACOES ESP S/A	SAO PAULO, SP	-BR	19,766
AA	ICOLL2	COLLI DRILL DO SUL COMERCIAL LTDA	SAO PAULO - SP - CEP	-BR	47,248
AA	DIREC5	DIRECT HORIZONTAL DRILLING INC	SPRUCE GROVE, AB	-CA	(3,609)
AA	KAMLOO	KAMLOOPS AUGERING & BORING LTD	KAMLOOPS, BC	-CA	527
AA	GIRDEL	GIR DEL HYDRAULIC SERVICES	EDMONTON, AB	-CA	548
AA	DIRECT	DIRECTIONAL MINING & DRILLING	LANGLEY, BC	-CA	878
AA	NELSON	NELSON RIVER CONSTRUCTION INC	WINNIPEG, MB	-CA	2,078
AA	FULLCN	FULL BORE CONTRACTING LTD	FORT ST JOHN, BC	-CA	2,344
AA	MARATH	MARATHON DRILLING CO LTD	GREELY, ON	-CA	8,384
AA	FORACT	FORACTION INC	MONT-ST-HILAIRE, QC	-CA	9,046
AA	ALLEN3	ALLEN ENTREPRENEUR GENERAL INC	SAINT-HENRI, QC	-CA	13,310
AA	CALGAR	CALGARY TUNNELLING & HORIZ AUG	CALGARY, AB	-CA	17,224
AA	CROSSI	THE CROSSING CO INC	NISKU, AB	-CA	20,680
AA	TRENCN	TRENCHLESS UTILITY EQUIP INC	BURLINGTON, ON	-CA	163,773
AA	SIMSA	SERVICIO DE INGENIERIA MOV. DE TIERRA SA	COQUIMBO	-CL	31,466
AA	SQM	SQM SALAR SA	LAS CONDES, SANTIAGO	-CL	266,876
AA	KOBELC	CASE CONST MACH(SHANGHAI) CO LTD	PUDONG, SHANGHAI	-CN	7,287
AA	CHINAH	CHINA HUANQIU CONTRACTING & ENGRG CORP	CHAORYANG DIST,BEIJING	-CN	104,131
AA	MONTIN	MONTINPETROL S.A.	BOGOTA	-CO	(8,019)
AA	PETROJ	PETROJET	CAIRO	-EG	424
AA	CATALA	CATALANA DE PERFORACIONS SA	08251 SANTPEDOR(BARCELONA)	-ES	(6,513)
AA	EMILIM	EMIL IMPORT S.L.	VALENCIA	-ES	9,351
AA	SOMIKO	SOMICO	60530 NEUILLY-EN-THELLE	-FR	20,655
AA	EUROFOR	EUROFOR SAS	CHASSIEU	-FR	32,997
AA	TADRIL	T A DRILLING (SALES) LIMITED	ST LEONARDS ON SEA	-GB	(5,082)
AA	SMICE	SMICE INTERNATIONAL	ACCRA	-GH	(4,307)
AA	DOLEV	DOLEV CONSTRUCTION	REHOVOT 76460	-IL	(132)
AA	ASIAN	ASIAN CONTEC LIMITED	NEW DELHI - 110 020	-IN	1,278
AA	LARSEN	LARSEN & TOUBRO LIMITED	CHENNAI	-IN	15,896
AA	ICOLLI	COLLI DRILL SPA	ROME	-IT	709
AA	FONDAZ	FONDAZIONI SPECIALI SPA	PARMA	-IT	8,272
AA	DISTMX	DIST Y ARREN D/MAQ P/CAM e IND SA de CV	COL. NUEVA ANZURES	-MX	2,534
AA	OILSER	OILSERV LIMITED NIGERIA	PORT HARCOURT	-NG	(15,000)
AA	ENIKKO	ENIKKOM INVESTMENT SVCS NIGERIA LTD	PORT HARCOURT	-NG	942
AA	HADLEE	HADLEE & BRUNTON LTD	TIMARU	-NZ	603,250
AA	GULFPE	GULF PETROCHEMICAL SERVICES & TRDG LLC	JIBROO	-OM	(42)
AA	AFAQAL	AFAQ AL-MUSANA TRADING LLC	SULTANATE OF	-OM	21,296
AA	SCFORA	SC FORAJ CONSTRUCTII SRL	BUCHAREST	-RO	(161)
AA	QAHTAN	MIZAT THRUST BORING	AL-KHOBAR-31952	-SA	88,738
AA	ROPER	ROPER BROTHERS	FOUNTAIN INN	SC	1,480
AA	LUCKY	LUCKY JOINT CONSTRUCTION PTE LTD		-SG	768,733
AA	DIZELT	DIZEL TURBO MAKINE SAN TIC LTD STI	ISTANBUL	-TR	(109)
		Total International			2,267,625

Company total 4,882,864

Less Finance Charges Included (40,144)

Plus Credit Accounts Included Above Reclassified 135,913

Total per Trial Balance 4,978,634

Intercompany Receivables

Account					
30160	OSBORN	OSBORN ENGINEERED PRODUCTS SA PTY LTD	ELANDSFONTEIN	-ZA	503,262
30385	GEFCO	GEFCO			51,532
30230	TRENCOR	Astec Underground			1,607

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Pending Claims

1. American Augers, Inc. v. Directional Road Boring, Inc. and Directional Road Boring, Inc. v. American Augers, Inc. (counterclaim); 24th Judicial District Court for the Parish of Jefferson, State of Louisiana; Case No. 712-108

Some time ago American Augers, Inc. turned a customer account over to a collection agency to collect an unpaid debt of approximately \$206,000. Pre-litigation collection efforts by the collection agency were apparently unsuccessful, as a result of which the agency referred the matter to a "collection lawyer" in Louisiana who filed suit against the customer to collect the debt. The facts known to us at this time appear to indicate that there is no substantive basis for the counterclaim. American Augers' answer to the counterclaim has been filed.

In addition, we have been informed through informal channels that the Defendant's business is not doing well and would be unlikely to pay any judgment. As a result, we are working with our local counsel to settle this matter with Defendant and receive some type of payment, rather than spend a large amount of time and effort in obtaining a judgment against a Defendant who would be unable to satisfy the judgment.

2. Juan Carlos Rodriguez-Trejo and Jovita Parra v. Laughlin-Thyssen, Inc. and American Augers, Inc.; In the District Court 250th Judicial District, Travis County, Texas; Case No. D-I-GN-11-002685

Plaintiffs filed an amended complaint on October 5, 2012, adding American Augers as a defendant. The Complaint was served on American Augers October 11, 2012. According to the complaint, the plaintiff's leg was crushed and severed in the spoil chamber of an auger boring machine. We have begun an investigation into the accident. It is much too early to determine a likely outcome of this matter.

3. Petro Evaluation Services, Inc. v. American Augers, Inc.; In the Court of Common Pleas of Wayne County, Ohio; Case No. 11-CV-0143

Petro Evaluation Services, Inc. ("Petro") filed this action against American Augers, Inc. ("Augers") alleging breach of a Natural Gas Sales Agreement between Petro and Augers. American Augers filed a counterclaim. Each party has filed a motion for partial summary judgment on its claims.

4. American Augers, Inc. v. Petro Evaluation Services, Inc.; Before the Public Utilities Commission of Ohio; Case No. 12-2207-GA-CSS

American Augers, Inc. ("Augers") filed a complaint on August 1, 2012 asking the Public Utilities Commission of Ohio ("PUCO") to make a determination that the services provided by Petro Evaluation Services, Inc. ("Petro") are subject to PUCO's regulation and to find that Petro violated PUCO's rules and regulations and overcharged Augers. The parties are to file briefs concerning PUCO's jurisdiction over this matter by November 15, 2012 and any reply briefs by November 29, 2012.

Schedule 3.16(b) Known Judgements

None

Schedule 3.17(b) Permits other than Environmental Permits

None

Schedule 3.18(a) Environmental Compliance Exceptions

1. The natural oil gas well on the Real Property has not been properly closed in accordance with all applicable laws.
2. Matters set forth in Compliance Assessment Report (AA Property) dated November 6, 2012 (Superior Project No. SE3202.01) by Superior Environmental Corp.

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SCHEDULE 3.18(d) ABOVEGROUND AND UNDERGROUND STORAGE TANKS

ABOVEGROUND STORAGE TANKS*		
Location and Description	Capacity (Gallons)	Material Stored
Building 2 Fab	2 – 500 gal	Hydraulic Oil
Building 2 Bay 6 Assembly	1 – 500 gal	Hydraulic Oil
Building 2 West Outside Concrete pad	2 – 500 gal	Waste Oil/Waste Coolant
Building 3 Assembly	2,000 gal	Hydraulic Oil
Building 2 West Outside Concrete Pad	500 gal	Diesel Fuel
Building 1 Maintenance	1 – 250 gal	Diesel Fuel
	1 – 500 gal	Gasoline

*The chart of aboveground storage tanks on page 28 of the Phase I Environmental Site Assessment prepared by Superior Environmental Corp. dated November 9, 2012 is also incorporated by reference.

UNDERGROUND STORAGE TANKS		
Location and Description	Capacity (Gallons)	Material Stored
N/A		

Schedule 3.19(a) Benefit Plans

Schedule 3.19 Employee Benefit Matters

The following benefit plans are administered by the company for the participation of the employees:

Medical Plans including a vision plan and prescription drug plan subsidized and administered by the company

Wellness Plan and medical consultation service funded by the company

Dental Plan funded by the employees

Flexible Spending Account funded by the employees

Health Savings Account funded by the employees

Employee Life - No cost to employees. Exempt coverage equals annual salary and non-exempt coverage equals \$25,000.00.

Employee A,D&D (The Hartford) funded by the Company

Short and Long Term Disability funded by the Company

Supplemental life, Long Term Disability and Critical Illness insurance funded by the employees

Vacation

Paid Time Off (PTO) accrual based on longevity Time Frame	Paid Days Off Earned per year
> 1 year but < 6 years	12 days
> 6 years but < 9 years	15 days
> 9 years but < 15 years	17 days
> 15 years	21 days

401(k) - Company matches up to 3% of applicable salary, 100% vested from first day of employment.

Tuition Reimbursement - 110% reimbursement of tuition for certifications or continuing education.

Full time employees get eight paid holidays per year plus pay for jury duty and funeral leave

Employees are paid biweekly either based on hours worked or per a fixed amount per pay period. Certain sales employees are paid a base salary plus commissions on sales paid upon full payment of the underlying customer accounts receivable.

Certain employees are provided the use of automobiles and cell phones at the discretion of American Auger's management.

The following profit sharing and deferred compensation plans are offered by the company:

Employees participate in a profit sharing plan whereby employees can earn up to ten percent of the company's net earning upon the attainment of certain metrics. The award is allocated to the employees at the discretion of the American Auger's president.

The American Augers president participates in a profit sharing plan whereby he can earn up to fifty percent of his base salary upon the attainment of certain metrics.

Certain key employees participate in a restricted stock unit plan whereby these employees are awarded stock of Astec Industries, Inc. subject to vesting and other restrictions at the discretion of Astec Industries, Inc. and the American Auger's president.

A severance agreement exists with a former president of American Augers but amounts owed by American Augers under the agreement have been paid in full.

Section 3.19(b) Legal Issues Concerning Administration of Benefit Plans

None

Section 3.19(h) Payments under Benefit Plans, Increase in Benefits and Acceleration of Benefits Due to Stock Purchase Agreement

None

Section 3.19(i) Termination of Benefit Plans

None

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Schedule 3.20(a) Employment Matters

A schedule listing employee names, job titles, pay rates, date of hire, etc. was attached to the contract but is not included here due to its confidential nature.

Schedule 3.21 – Tax matters

Open Audits:

- I. Wisconsin audit of combined tax returns of Seller and its Affiliates for tax years 2009 and 2010.
- II. California audit of combined tax returns of Seller and its Affiliates for tax years 2008 and 2009.

Settled Audits:

1. Illinois Unitary Return: Years 2007–2008, settled in June 2012
2. New York Unitary Return: Years 2007–2009, settled in August 2012
3. Texas Combined Return: Years 2008–2009, (Desk Audit) settled in September 2010
4. Illinois Unitary Return: Years 2005–2006, settled in May 2011

Settled Sales and Use Tax Audits of American Augers Returns Filed Separately:

1. Illinois Department of Revenue Sales & Use Tax Audit for the period 07/2008 to 12/2010
2. Washington Department of Revenue Sales & Use Tax Audit for the period 01/2007 to 09/2010

Tax Sharing Agreement:

- I. Seller and certain of its Affiliates (including the Company) are parties to a Tax Allocation Agreement dated February 3, 2011 which will be terminated as to the Company as of the Closing Date.

The Company is party to the following Voluntary Disclosure Agreements:

- I. Agreement and Election to Precollect the Wisconsin Use Tax and to Limit Taxpayer's Prior Year's Filing Requirements for Sales/Use and Corporation Franchise/Income Tax, dated May 11, 2009.
- II. Voluntary Disclosure Agreement for Maryland Income and Sales and Use Taxes, dated May 21, 2010.
- III. Settlement Agreement with Missouri Department of Review, dated April 17, 2009.
- IV. Gross Receipts and Compensation Tax Managed Audit Agreement with New Mexico Taxation and Revenue Department, dated March 18, 2011.
- V. Voluntary disclosure arrangement with South Carolina Department of Revenue – February, 2011.
- VI. Louisiana Department of Revenue Agreement for Registration and Payment of State Sales/Uses Taxes and Corporation Income and Franchise Taxes, dated June 19, 2012.
- VII. Voluntary Disclosure Agreement with Jefferson Davis, Louisiana, dated August 3, 2012.
- VIII. Sales and Use Tax Agreement with Ouachita Parish for the City of Monroe, dated August 2, 2012.
- IX. Calcasieu Parish Sales and Use Tax Department Agreement for Registration and Payment of Parish Sales/Use Taxes, dated August 23, 2012.
- X. Application for Voluntary Disclosure (BOA-2) and Board of Appeals Order from Illinois Department of Revenue (order dated July 16, 2008).
- XI. Agreement for Registration and Payment of Colorado State Taxes, dated July 16, 2009.
- XII. Voluntary Disclosure Agreement with Alabama Department of Revenue, dated May 29, 2012.
- XIII. Georgia Sales and Use Tax Agreement, dated August 27, 2010.
- XIV. RDS Voluntary Compliance Agreement with RDS as agent for various jurisdictions in Alabama, dated September 27, 2012.
- XV. Voluntary Disclosure Agreement with Arizona Department of Revenue, dated October 27, 2009.

Joint Venture:

- I. Joint Venture Agreement with H.A.D., Inc. which relates to the Excluded Business, dated August 1, 2011.

Schedule 3.24 Directors and Officers

American Augers, Inc. Directors

J. Don Brock

Thomas R. Campbell

American Augers, Inc. Corporate Officers

Titles

Thomas R. Campbell

Chairman of the Board

Stephen C. Anderson

Secretary

David C. Silvious

Assistant Secretary/Treasurer

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Schedule 3.26 Related Party Transactions

None

FIRST AMENDMENT TO STOCK PURCHASE AGREEMENT

This First Amendment to Stock Purchase Agreement (this "Amendment") is made and entered into as of November 30, 2012, by and among ASTEC INDUSTRIES, INC., a Tennessee corporation ("Seller"), AMERICAN AUGERS, INC., a Delaware corporation (the "Company"), and THE CHARLES MACHINE WORKS, INC., an Oklahoma corporation ("Buyer").

RECITALS

WHEREAS, Seller, the Company, and Buyer are parties to that certain Stock Purchase Agreement dated October 31, 2012 (the "Agreement"). Capitalized terms used but not otherwise defined in this Amendment shall have the meanings set forth in the Agreement.

WHEREAS, the parties now desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Environmental. Article V of the Agreement is hereby amended by adding the following Section 5.17:

"Section 5.17 Environmental.

- (a) Natural Gas Wells. As soon as reasonably practicable after the Closing, Seller shall, at Seller's sole cost and expense, properly close the open natural gas well on the Real Property in accordance with all applicable laws.
- (b) EPCRA Applicability Analysis. As soon as reasonably practicable after the Closing, Seller shall engage a consultant reasonably acceptable to Buyer ("Consultant") to perform an analysis of the Company's compliance with the Toxic Release Inventory ("TRI") Reporting requirements (the "Requirements") of the Emergency Response and Community Right-to-Know Act of 1986 ("EPCRA"). Upon its completion, Buyer shall provide a copy of the Consultant's report to Seller and shall consult with Seller concerning any actions recommended by Consultant. Seller shall cooperate with Buyer in providing available information for the modification or preparation of any necessary reports. Subject to the Limitation of Liability contained in this Section, Seller shall reimburse Buyer for expenses Buyer reasonably incurs in the modification and preparation of any necessary reports and shall reimburse Buyer for any penalties or fines that Buyer is required to pay as a result of any failure of Seller to comply with TRI reporting requirements prior to Closing.
- (c) Issues Identified Post-Closing From Pre-Closing Site Sampling. As soon as reasonably practicable after the Closing, Buyer will provide to Seller the results of the analysis gathered pre-closing from onsite sampling of septic leach field and process water/storm water pond. Should such analyses show the presence of environmental contamination in excess of applicable governmental remediation standards, and subject to the Limitation of Liability contained in this Section, Seller shall reimburse Buyer for expenses Buyer reasonably incurs for the removal or remediation of environmental contamination that existed prior to Closing to levels required by applicable governmental remediation standards.
- (d) Performance of Environmental Covenants. Buyer and Seller shall cooperate and consult concerning the matters addressed in this Section 5.17 (the "Environmental Covenants"). Upon Seller's reasonable notice to Buyer, Buyer shall afford Seller or a representative of Seller with reasonable access to the Real Property; provided such access to the Real Property shall be for the limited purpose of performing the Environmental Covenants and shall be conducted in a manner that does not unreasonably interfere with Buyer's business operations. If Seller fails to diligently perform or pursue completion of the Environmental Covenants, Buyer may take all necessary action to complete the obligations under the Environmental Covenants on behalf of Seller, and, subject to the Limitation of Liability contained in this Section, Seller shall reimburse all reasonable costs and expenses incurred by Buyer to complete such obligations.
- (e) Limitation of Liability. Seller's aggregate liability and out-of-pocket expenses for fulfilling its obligations with respect to the Environmental Covenants, including, without limitation, fees paid to third parties for services rendered, fines, penalties, damages and clean-up costs, shall not exceed \$50,000 in the aggregate; provided, however, nothing in this Section 5.17 shall limit the Seller's representations and warranties or indemnification obligations set forth in this Agreement. To the extent that Seller is responsible for the payment or reimbursement of any expenses under this Section, Seller shall pay such expenses in the order received and approved, up to the aggregate limitation amount set forth in this Section.

2. No Other Amendments. Except as modified by this Amendment, the parties agree that the Agreement shall remain in full force and effect according to its terms.

3. Execution. This Amendment may be executed and delivered in any number of counterparts, each of which so executed and delivered shall be deemed to be an original and all of which shall constitute one and the same instrument. The exchange of executed counterparts of this Amendment or of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Amendment and may be used in lieu of the original for all purposes.

[Signature Page to Follow]

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Executed as of the date first written above.

SELLER:

ASTEC INDUSTRIES, INC.

By: /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: Group Vice President – Underground Group

COMPANY:

AMERICAN AUGERS, INC.

By: /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: President

BUYER:

THE CHARLES MACHINE WORKS, INC.

By: /s/ Tiffany Sewell-Howard

Name: Tiffany Sewell-Howard

Title: Chief Executive Officer

[Signature Page to First Amendment to Stock Purchase Agreement]

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See "exh10-19addlschedules.pdf" for copies of additional schedules which were not in a format convertible to htm.

ASSET PURCHASE AGREEMENT

among

ASTEC INDUSTRIES, INC.,

ASTEC UNDERGROUND, INC.

and

THE CHARLES MACHINE WORKS, INC.

dated as of

October 31, 2012

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "**Agreement**"), dated as of October 31, 2012, is entered into among ASTEC INDUSTRIES, INC., a Tennessee corporation ("**Parent**"), ASTEC UNDERGROUND, INC., a Tennessee corporation ("**Seller**"), and THE CHARLES MACHINE WORKS, INC., an Oklahoma corporation ("**Buyer**").

RECITALS

WHEREAS, Parent owns 100% of the outstanding capital stock of Seller; and

WHEREAS, Seller is engaged in the manufacture, distribution, marketing, sale and servicing (the "**Business**") of its Trenchor product line (the "**Product Line**"); and

WHEREAS, Seller wishes to sell and assign to Buyer, and Buyer wishes to purchase from Seller, certain assets of the Business, and certain other inventory defined herein as Tier 2 Products, subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

The following terms have the meanings specified or referred to in this [Article I](#):

"**Affiliate**" of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Agreement**" has the meaning set forth in the preamble.

"**Assigned Contracts**" has the meaning set forth in [Section 2.01\(b\)](#).

"**Assignment and Assumption Agreement**" has the meaning set forth in [Section 3.02\(a\)\(ii\)](#).

"**Assumed Liabilities**" has the meaning set forth in [Section 2.03](#).

"**Bill of Sale**" has the meaning set forth in [Section 3.02\(a\)\(i\)](#).

"**Books and Records**" has the meaning set forth in [Section 2.01\(e\)](#).

"**Business**" has the meaning set forth in the recitals.

"**Business Day**" means any day except Saturday, Sunday or any other day on which commercial banks located in Oklahoma City, Oklahoma, are authorized or required by Law to be closed for business.

"**Buyer**" has the meaning set forth in the preamble.

"**Buyer Closing Certificate**" has the meaning set forth in [Section 7.02\(d\)](#).

"**Closing**" has the meaning set forth in [Section 3.01](#).

"**Closing Date**" has the meaning set forth in [Section 3.01](#).

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Contracts**" means all legally binding contracts, leases, mortgages, licenses, instruments, notes, commitments, undertakings, indentures and other agreements, whether oral or in writing, related exclusively to the Business.

"**Direct Claim**" has the meaning set forth in [Section 8.05\(b\)](#).

"**Dollars or \$**" means the lawful currency of the United States.

"**Encumbrance**" means any lien, pledge, mortgage, deed of trust, security interest, charge, claim, easement, limitation, commitment, encroachment, preference, priority, option, right of first refusal, restriction, or other encumbrance of any kind or nature.

"**Environmental Claim**" means any Governmental Order, action, suit, claim, cause of action, investigation or other legal proceeding by any Person alleging liability of whatever kind or nature arising out of, based on or resulting from: (a) the presence, Release of, or exposure to, any Hazardous Materials; or (b) any actual or alleged non-compliance with any Environmental Law.

"**Environmental Law**" means any applicable Law, and any Governmental Order or binding agreement with any Governmental Authority: (a) relating to pollution (or the cleanup thereof) or the protection, investigation, restoration, or reclamation of natural resources, endangered or threatened species, human health or safety, or the environment (including ambient air, soil, surface water or groundwater, or subsurface strata); or (b) concerning the Release, presence of, exposure to, or the management, manufacture, use, containment, storage, recycling, reclamation, reuse, treatment, generation, discharge, transportation, processing, production, disposal or remediation of any Hazardous Materials.

"**Excluded Assets**" has the meaning set forth in [Section 2.02](#).

"**Excluded Liabilities**" has the meaning set forth in [Section 2.04](#).

"**GAAP**" means generally accepted accounting principles as used in the United States applied on a consistent basis with Seller's prior practices.

"**Governmental Authority**" means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any court of competent jurisdiction.

"**Governmental Order**" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"**Hazardous Materials**" means: (a) any material, substance, waste or compound, whether naturally occurring or man-made, that is hazardous, acutely hazardous, toxic, or words of similar import or regulatory effect under Environmental Laws; and (b) any petroleum or petroleum-derived products, radon, radioactive materials or wastes, asbestos in any form, lead or lead-containing materials, urea formaldehyde foam insulation and polychlorinated biphenyls.

"**Indemnified Party**" has the meaning set forth in [Section 8.04](#).

"**Indemnifying Party**" has the meaning set forth in [Section 8.04](#).

"**Intellectual Property**" means any and all of the following in any jurisdiction throughout the world: (a) trademarks and service marks, including all applications and registrations and the goodwill connected with the use of and symbolized by the foregoing; (b) copyrights, including all applications and registrations, and works of authorship, whether or not copyrightable; (c) trade secrets and confidential know-how; (d) patents and patent applications; (e) websites and internet domain name registrations; and (f) all other intellectual property and industrial property rights and assets, and all rights, interests and protections that are associated with, similar to, or required for the exercise of, any of the foregoing.

"**Intellectual Property Assets**" has the meaning set forth in [Section 2.01\(c\)](#).

“**Intellectual Property Licenses**” means all licenses, sublicenses and other agreements by or through which other Persons, including Seller’s Affiliates, grant Seller exclusive or non-exclusive rights or interests in or to any Intellectual Property that is used in connection with the Business.

“**Intellectual Property Registrations**” means all Intellectual Property Assets that are subject to any issuance, registration, application or other filing by, to or with any Governmental Authority or authorized private registrar in any jurisdiction, including registered trademarks, domain names, and copyrights, issued and reissued patents and pending applications for any of the foregoing.

“**Inventory**” has the meaning set forth in [Section 2.01\(a\)](#).

“**Knowledge of Seller or Seller’s Knowledge**” or any other similar knowledge qualification, means the actual knowledge of those Persons listed on [Schedule 1.01\(a\)](#) and the knowledge such Persons would acquire after a reasonably diligent inquiry into the fact or matter in question.

“**Law**” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement or rule of law of any Governmental Authority.

“**Losses**” means actual out-of-pocket losses, damages of any kind, liabilities, awards, losses, judgments, obligations, assessments, fines, sanctions, penalties, charges, costs, expenses, payments, all interest thereon (including court costs, costs of defense, and reasonable attorneys’ fees and fees of accountants and other professional advisors) and all amounts paid incident to any compromise or settlement of any claim, lawsuit or arbitration.

“**Material Adverse Effect**” means any event, occurrence, fact, condition or change that is or could reasonably be expected to be materially adverse to (a) the business, results of operations, financial condition, assets, or prospects of the Business, taken as a whole, or (b) the ability of Seller to consummate the transactions contemplated hereby.

“**Material Contracts**” has the meaning set forth in [Section 4.07](#).

“**Permits**” means all permits, licenses, franchises, approvals, authorizations and consents required to be obtained from Governmental Authorities.

“**Person**” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“**Product Line**” means Seller’s Trenchor product line consisting of chain trenchers, wheel trenchers, and related parts and components, but not including the four track center drive surface miner technology and all rights related thereto. The items included in the Product Line are more particularly set forth on [Schedule 1.01\(b\)](#).

“**Purchase Price**” has the meaning set forth in [Section 2.05](#).

“**Purchased Assets**” has the meaning set forth in [Section 2.01](#).

“**Release**” means any actual or threatened release, spilling, leaking, emitting, discharging, dumping, disposing or allowing to escape or migrate into or through the environment (including, without limitation, ambient air (indoor or outdoor), surface water, groundwater, land surface or subsurface strata or within any structure, facility or fixture).

“**Representative**” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

“**Seller**” has the meaning set forth in the preamble.

“**Seller Closing Certificate**” has the meaning set forth in [Section 7.01\(d\)](#).

“**Taxes**” means all federal, state, local, foreign and other income, gross receipts, sales, use, production, ad valorem, transfer, business or commercial activity, capital stock, franchise, registration, value added, alternative or add-on minimum, profits, license, lease, service, service use, withholding, payroll, employment, social security (or similar), unemployment, disability, estimated, excise, severance, environmental (including taxes under Code § 59A), stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, together with any interest, additions or penalties with respect thereto, whether disputed or not, and any interest in respect of such additions or penalties.

“**Tax Return**” means any return, declaration, report, claim for refund, information return or statement or other document required to be filed with respect to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“**Third Party Claim**” has the meaning set forth in [Section 8.05\(a\)](#).

“**Transaction Documents**” means this Agreement, the Bill of Sale, the Assignment and Assumption Agreement, and the other agreements, instruments and documents required to be delivered at the Closing.

“**Tier 2 Products**” means certain inventory of Seller consisting of horizontal directional drills utilizing Type 2 engines (as classified by the Environmental Protection Agency) as further described and listed on [Schedule 1.01\(c\)](#).

ARTICLE II

PURCHASE AND SALE

Section 2.01 Purchase and Sale of Assets

. Subject to the terms and conditions set forth herein, at the Closing, Seller shall sell, assign, transfer, convey and deliver to Buyer free and clear of all Encumbrances, and Buyer shall purchase from Seller, all of Seller’s right, title and interest (i) in and to the Tier 2 Products, and (ii) in, to and under the following assets, properties and rights of Seller, to the extent that such assets, properties and rights exist as of the Closing Date and exclusively relate to the Business (collectively, the “**Purchased Assets**”):

(a) all inventory (including rental inventory), finished goods, raw materials, work in progress, packaging, supplies, parts and other inventories of the Business (“**Inventory**”), whether in Seller’s possession or in transit, and the weld fixtures and specialty tools described on [Schedule 2.01\(a\)](#);

(b) all Contracts set forth on [Schedule 4.07](#) (to the extent such Contracts are assignable) and the Intellectual Property Licenses set forth on [Schedule 4.07](#) (collectively, the “**Assigned Contracts**”);

(c) all Intellectual Property owned by, or licensed to, Seller and used in connection with the Business, including the Intellectual Property Licenses and the Intellectual Property Registrations set forth on [Schedule 4.07](#) (the “**Intellectual Property Assets**”);

(d) all of Seller’s rights under warranties, indemnities and all similar rights against third parties to the extent related to any Purchased Assets;

(e) originals, or where not available, copies, of all customer lists, customer purchasing histories, price lists, cost lists, distribution lists, supplier lists, production data, quality control records and procedures, customer complaints and inquiry files, research and development files, records and data (including all correspondence with any Governmental Authority), sales material and records, marketing and promotional surveys, catalogues, material and research, invoices, inventory records, accounting records, product specifications, drawings and engineering documentation, files (paper and electronic) and drawings (including CAD drawings and documents), test reports, product evaluation reports, safety/inspection reports, market intelligence research, market studies and other similar reports, maintenance records, drawings, operating and production records, advertising materials, bids and quotations, supplier lists, catalogs, quality control records and manuals, blueprints, research and development files, patent and trademark files; in all cases to the extent related to the Product Line (“**Books and Records**”); and

(f) all goodwill associated with any of the assets described in the foregoing clauses.

Section 2.02 Excluded Assets

. Other than the Purchased Assets subject to [Section 2.01](#), Buyer expressly understands and agrees that it is not purchasing or acquiring, and Seller is not selling or assigning, any other assets or properties of Seller, and all such other assets and properties shall be excluded from the Purchased Assets (the “**Excluded Assets**”). Excluded Assets include without limitation, the following assets and properties of Seller:

(a) all cash and cash equivalents, bank accounts and securities of Seller;

(b) all accounts receivable of Seller;

(c) all real property, buildings, equipment, tools, vehicles, computer equipment, computer software and furniture of Seller;

(d) all Contracts that are not Assigned Contracts;

- (e) all Intellectual Property Assets incorporating the name "Astec", except as provided in **Section 6.14**;
- (f) all corporate records of Seller and all employee related files or records;
- (g) all insurance policies of Seller and all rights to applicable claims and proceeds thereunder;
- (h) all employee benefit plans of Seller and trusts or other assets attributable thereto;
- (i) all Tax assets (including duty and Tax refunds and prepayments) of Seller;
- (j) all rights to any action, suit or claim of any nature available to or being pursued by Seller, whether arising by way of counterclaim or otherwise; and
- (k) other than the Tier 2 Products, all assets, properties and rights used by Seller in its businesses other than the Business, including without limitation, the four track center drive surface miner technology and all rights related thereto.

Section 2.03 Assumed Liabilities

. Subject to the terms and conditions set forth herein, Buyer shall assume and agree to pay, perform and discharge when due any and all liabilities and obligations of Seller arising out of or relating to the Business or the Purchased Assets other than the Excluded Liabilities (collectively, the "Assumed Liabilities"), including, without limitation:

- (a) all liabilities and obligations arising after the Closing under the Assigned Contracts and with respect to orders received by Seller for products in the Product Line;
- (b) except as set forth in **Section 2.04**, all liabilities and obligations of Seller with regard to product warranty, intellectual property, general liability or product liability claims relating to the Business or the Tier 2 Products; and
- (c) all liabilities and obligations arising out of the operation of the Business and the Product Line after Closing.
- (d) All customer deposits relating to the Business.

Section 2.04 Excluded Liabilities

. Buyer shall not assume and shall not be responsible to pay, perform or discharge any of the following liabilities or obligations of Seller (collectively, the "Excluded Liabilities"):

- (a) any liabilities or obligations of Seller with respect to product liability claims, general liability claims, intellectual property claims, employment claims and warranty claims listed on **Schedule 2.04(a)**, provided, however, that with respect to each product or general liability claim made after Closing based on occurrences prior to Closing, and not set forth on **Schedule 2.04(a)**, Buyer shall be responsible for and assumes the first \$1,000,000 of Losses incurred in connection with such claim as part of the Assumed Liabilities, and any amount in excess of \$1,000,000 shall not be assumed by Buyer and shall be an Excluded Liability;
- (b) any liabilities or obligations of Seller relating to or arising out of the Excluded Assets or unrelated to the Business,
- (c) Seller's trade payables;
- (d) any liabilities or obligations for (i) income Taxes; (ii) Taxes (other than income Taxes) relating to the Business, the Purchased Assets or the Assumed Liabilities for any taxable period ending on or prior to the Closing Date (iii) any other Taxes of Seller (other than Taxes allocated to Buyer under **Section 6.09**) for any taxable period, and (iv) Taxes of any Person under Treasury Reg. § 1.1502-6 (or any similar provision of state, local or non-U.S. law), as a transferee or successor, by contract, or otherwise;
- (e) all liabilities and obligations arising prior to Closing under the Assigned Contracts;
- (f) any liabilities or obligations of Seller for Environmental Claims;
- (g) any liabilities or obligations of Seller under this Agreement (or under any side agreement between Seller on the one hand and Buyer on the other hand) entered into on or after the date of this Agreement; and
- (h) any employee benefit plan of Seller or any liability or obligation with respect to compensation or employee benefits of any nature owed to any employees, former employees, agents, or independent contractors of Seller, whether or not employed or engaged by Buyer after the Closing, that arises out of or relates (a) to the employment or service provider relationship with Seller (including the termination of such employment or service provider relationship) or (b) to any employee benefit plan of Seller.

Section 2.05 Purchase Price

(a) The aggregate purchase price for the Purchased Assets shall be an amount determined in accordance with **Section 2.05(b)** (the "Purchase Price"), plus the assumption of the Assumed Liabilities. At Closing, Buyer shall pay the Purchase Price by wire transfer of immediately available funds to an account designated in writing by Seller to Buyer.

(b) The Purchase Price shall equal (i) the net book value of the Trencor Inventory plus (ii) the net book value of the Tier 2 Products, calculated in accordance with GAAP, less (iii) accrued warranty for the Product Line and the Tier 2 Products, determined in accordance with GAAP, less (iv) customer deposits for the Product Line and the Tier 2 Products, less (v) 50% of the net book value of the Tier 2 Products plus (vi) \$1,500,000, all as determined as of the Closing Date. An illustration of how the Purchase Price shall be determined is reflected on **Schedule 2.05(b)**, which shows the calculation as of September 30, 2012 which would have resulted in a price of \$8,251,511. However, the amount of the Purchase Price to be paid at Closing shall be based on Seller's balance sheet as of the Closing Date (calculated in the same manner as **Schedule 2.05(b)**).

(c) For purposes of determining the Purchase Price at Closing, Seller will close its books of account with respect to the Purchase Assets as of two days prior to Closing for purposes of determining the accrued warranties and customer deposits included in the calculation of the Purchase Price. Within two days prior to the Closing Date, or at such earlier time as the parties may agree, one or more representatives of Seller and one or more representatives of Buyer shall perform a physical count of the Trencor Inventory and the Tier 2 Products in an agreed upon manner, and a certification as to the value of the Inventory shall be signed by at least one representative of each of Seller and Buyer immediately upon completion.

(d) If any dispute arises regarding the calculation of the Purchase Price that Seller and Buyer are not able to resolve before the Closing Date, at Closing, Buyer shall pay Seller the lesser amount asserted as the Purchase Price by Buyer or Seller, and Seller and Buyer shall negotiate in good faith to resolve such objections as soon as reasonably practicable following Closing. If they are unable to do so within thirty (30) days after Closing, the disputed items shall be submitted for resolution to a regional or national accounting firm agreed upon by the parties ("Independent Accountant") who shall resolve the matter as soon as possible with each party paying one-half of the fees and expenses of such Independent Accountant. Within five business days following resolution of such dispute, whether by agreement of the parties or determination of the Independent Accountant, Buyer shall pay to Seller the additional amount, if any, determined to be included in the Purchase Price.

(e) For purposes of complying with the terms set forth in this **Section 2.05**, each party shall reasonably cooperate with and make reasonably available to the other parties and their respective representatives all information, records, data, and working papers, including reasonable access to its facilities and personnel during normal business hours, as may be reasonably requested in connection with the calculation and analysis of the Purchase Price and the resolution of any disagreement related thereto.

Section 2.06 Allocation of Purchase Price

. The Seller and Buyer agree to allocate the Purchase Price among the Purchased Assets for all purposes (including financial accounting and Tax purposes) in accordance with the allocation schedule to be agreed upon by the parties prior to Closing, which shall be adjusted to reflect any adjustment to the Purchase Price pursuant to **Section 2.05(d)**.

Section 2.07 Non-assignable Assets

. Notwithstanding anything to the contrary in this Agreement, and subject to the provisions of this **Section 2.07**, to the extent that the sale, assignment, transfer, conveyance or delivery, or attempted sale, assignment, transfer, conveyance or delivery, to Buyer of any Purchased Asset would require the consent, authorization, approval or waiver of a Person who is not a party to this Agreement and such consent, authorization, approval or waiver shall not have been obtained prior to the Closing, this Agreement shall not constitute a sale, assignment, transfer, conveyance or delivery, or an attempted sale, assignment, transfer, conveyance or delivery, thereof. Following the Closing, Seller and Buyer shall use commercially reasonable efforts, and shall cooperate with each other, to obtain any such required consent, authorization, approval or waiver, so that, in any case, Buyer shall be solely responsible for such liabilities and obligations from and after the Closing Date; provided, however, that neither Seller nor Buyer shall be required to pay any consideration therefor. Once such consent, authorization, approval, waiver, release, substitution or amendment is obtained, Seller shall sell, assign, transfer, convey and deliver to Buyer the relevant Purchased Asset to which such consent, authorization, approval, waiver, release, substitution or amendment relates for no additional consideration. To the extent that any Purchased Asset and/or Assumed Liability cannot be transferred to Buyer following the Closing pursuant to this **Section 2.07**, Buyer and Seller shall use commercially reasonable efforts to enter into such arrangements (such as subleasing, sublicensing or subcontracting) to provide to the parties the economic and, to the extent permitted under applicable Law, operational equivalent of the transfer of such Purchased Asset and/or Assumed Liability

to Buyer as of the Closing and the performance by Buyer of its obligations with respect thereto.

ARTICLE III

CLOSING

Section 3.01 Closing

. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the “Closing”) shall take place at a time and place agreed upon by the parties on the second Business Day after all of the conditions to Closing set forth in [Article VII](#) are either satisfied or waived (other than conditions which, by their nature, are to be satisfied on the Closing Date), or at such other time, date or place as Seller and Buyer may mutually agree upon in writing. The date on which the Closing is to occur is herein referred to as the “Closing Date”.

Section 3.02 Closing Deliverables

(a) At the Closing, Seller shall deliver to Buyer the following:

(i) a bill of sale in the form of [Exhibit A](#) hereto (the “Bill of Sale”) and duly executed by Seller, transferring the tangible personal property included in the Purchased Assets to Buyer;

(ii) an assignment and assumption agreement in the form of [Exhibit B](#) hereto (the “Assignment and Assumption Agreement”) and duly executed by Seller, effecting the assignment to and assumption by Buyer of the Assigned Contracts and the Assumed Liabilities;

(iii) the Seller Closing Certificate;

(iv) the certificates of the Secretary or Assistant Secretary of Seller required by [Section 7.01\(e\)](#) and [Section 7.01\(f\)](#);

(v) a list of orders received by Seller for products in the Product Line that have not yet been filled and a copies of any agreements related to such unfilled orders; and

(vi) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Buyer, as may be required to give effect to this Agreement.

(b) At the Closing, Buyer shall deliver to Seller the following:

(i) the Purchase Price;

(ii) the Assignment and Assumption Agreement duly executed by Buyer;

(iii) the Buyer Closing Certificate;

(iv) the certificates of the Secretary or Assistant Secretary of Buyer required by [Section 7.02\(e\)](#) and [Section 7.02\(f\)](#).

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

Parent and Seller jointly and severally represent and warrant to Buyer that the statements contained in this [Article IV](#) are true and correct.

Section 4.01 Organization and Qualification of Seller

. Seller is a corporation duly organized, validly existing and in good standing under the Laws of the state of Tennessee and has all necessary corporate power and authority to own, operate or lease the properties and assets now owned, operated or leased by it and to carry on the Business as currently conducted. Seller is duly licensed or qualified to do business and is in good standing in each jurisdiction set forth on [Schedule 4.01](#), which is each jurisdiction in which the ownership of the Purchased Assets or the operation of the Business as currently conducted makes such licensing or qualification necessary, except where the failure to be so licensed, qualified or in good standing would not have a Material Adverse Effect.

Section 4.02 Authority of Seller

. Seller has all necessary corporate power and authority to enter into this Agreement and the other Transaction Documents to which Seller is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and any other Transaction Document to which Seller is a party, the performance by Seller of its obligations hereunder and thereunder and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Seller. This Agreement has been duly executed and delivered by Seller, and (assuming due authorization, execution and delivery by Buyer) this Agreement constitutes a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). When each other Transaction Document to which Seller is or will be a party has been duly executed and delivered by Seller (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Seller enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

Section 4.03 No Conflicts; Consents

. The execution, delivery and performance by Seller of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) result in a violation or breach of any provision of the charter or by-laws of Seller; (b) result in a violation or breach of any provision of any Law or Governmental Order applicable to Seller, the Business or the Purchased Assets; or (c) except as set forth in [Schedule 4.03](#), require the Consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default under or result in the acceleration of any Material Contract. No Consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Seller in connection with the execution and delivery of this Agreement or any of the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

Section 4.04 Title to Assets and Absence of Encumbrances

. Seller owns and has good title to the Purchased Assets, and all such assets are free and clear of all Encumbrances except for the security interests described on [Schedule 4.04](#), which will be released at or before the Closing. Seller has not entered into any contract to sell, mortgage, or otherwise encumber any of the Purchased Assets, except for sales of Inventory in the ordinary course of business.

Section 4.05 Certain Financial Information

. [Schedule 4.05](#) contains a true, correct, and complete schedule showing the revenues, cost of goods sold and gross profit, by product by month, for the years 2010 and 2011 for the Product Line. Also attached to [Schedule 4.05](#) is an unaudited balance sheet (the “Balance Sheet”) of Seller dated September 30, 2012 (the “Balance Sheet Date”) which fairly presents the financial condition of Seller as of the Balance Sheet Date in all material respects.

Section 4.06 Absence of Certain Changes, Events and Conditions

. Except as set forth on [Schedule 4.06](#), since the Balance Sheet Date, Seller has operated the Business in the ordinary course of business in all material respects and there has not been, with respect to the Business, any:

(a) event, occurrence or development that has had or could reasonably be expected to have a Material Adverse Effect;

(b) sale, lease, or other disposition of any of the Purchased Assets shown or reflected in the Balance Sheet, except for the sale of Inventory in the ordinary course of business;

(c) cancellation of any debts or claims or amendment, termination or waiver of any rights constituting Purchased Assets, except in the ordinary course of business;

(d) imposition of any Encumbrance upon any of the Purchased Assets;

(e) adoption of any plan of merger, consolidation, reorganization, liquidation or dissolution or filing of a petition in bankruptcy under any provisions of federal or state bankruptcy Law or consent to the filing of any bankruptcy petition against it under any similar Law; or

(f) any agreement to do any of the foregoing, or any action or omission that would result in any of the foregoing.

Section 4.07 Material Contracts

. **Schedule 4.07** lists each Assigned Contract and each of the Contracts (x) by which any of the Purchased Assets are bound or affected or (y) to which Seller is a party or by which it is bound in connection with the Business or the Purchased Assets (collectively, the "Material Contracts"). Each Material Contract is in full force and effect, and neither Seller nor, to Seller's Knowledge, any other party thereto is in material breach of, or material default under, any Material Contract.

Section 4.08 Intellectual Property

. **Schedule 4.08** lists all Intellectual Property used in connection with the Business, including all Intellectual Property Registrations and Intellectual Property Licenses. Except as set forth in **Schedule 4.08**, Seller owns or has the right to use without payment of any amount (other than filing fees, continuation or renewal fees, or maintenance fees, taxes, or similar fees and charges) all Intellectual Property necessary to conduct the Business as currently conducted. Except as set forth in **Schedule 4.08**, to Seller's Knowledge: (i) Seller's conduct of the Business as currently conducted does not infringe, violate, dilute or misappropriate the Intellectual Property of any Person; and (ii) no Person is infringing, violating, diluting or misappropriating any Intellectual Property Assets.

Section 4.09 Legal Proceedings; Governmental Orders

. Except as set forth in **Schedule 2.04(a)**, there are no actions, suits, claims, investigations or other legal proceedings pending or, to Seller's Knowledge, threatened against or by Seller relating to or affecting the Business, the Purchased Assets or the Assumed Liabilities. There are no outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against or affecting the Business or the Purchased Assets.

Section 4.10 Compliance With Laws

. To Seller's Knowledge, Seller is in compliance with all Laws applicable to the conduct of the Business as currently conducted or the ownership and use of the Purchased Assets. None of the representations and warranties in **Section 4.10** shall be deemed to relate to environmental matters (which are governed by **Section 4.11**) or tax matters (which are governed by **Section 4.12**). To Seller's Knowledge, there are no material Permits required by any Governmental Authority to own and operate the Business other than standard business licenses and environmental permits. Neither Seller, nor any of its officers, directors, agents, employees or any other Persons acting on its behalf has made or accepted any payment, compensation, or gift in violation of the United States Foreign Corrupt Practices Act or any similar Law of any foreign jurisdiction.

Section 4.11 Environmental Matters

. Except as set forth in **Schedule 4.11**, to Seller's Knowledge, the operations of Seller with respect to the Business and the Purchased Assets are, and have been, in compliance with all Environmental Laws. Seller has not received from any Person, with respect to the Business or the Purchased Assets, any: (i) Environmental Claim; or (ii) written request for information pursuant to Environmental Law, which, in each case, either remains pending or unresolved, or is the source of ongoing obligations or requirements as of the Closing Date.

Section 4.12 Taxes

. Except as set forth in **Schedule 4.12**, Seller has filed (taking into account any valid extensions) all Tax Returns required to be filed by Seller and has paid all Taxes due and owing by Seller (whether or not shown on any Tax Return). Such Tax Returns were correct and complete and were prepared in compliance with applicable laws and regulations. Seller is not currently the beneficiary of any extension of time within which to file any Tax Return other than extensions of time to file Tax Returns obtained in the ordinary course of business.

Section 4.13 Neutral Asset Purchase

(a) There are no Liens for Taxes (other than Taxes not yet due and payable) upon any of the Purchased Assets. Seller has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party, and all Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed.

(b) There is no dispute or claim concerning any Tax liability of Seller either (i) claimed or raised by any authority in writing or (ii) as to which any of the directors and officers of Seller has Knowledge based upon personal contact with any agent of such authority.

Section 4.14 Brokers

. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Seller.

Section 4.15 Inventory

(a) The Inventory: (i) consists of items of merchantable quality, (ii) conforms to the specifications established therefore, and (iii) has been manufactured in material accordance with all applicable Laws. The quantities of all such Inventory, materials and supplies of Seller are not defective and are useable or sellable in the ordinary course of business.

(b) SELLER MAKES NO REPRESENTATION OR WARRANTY REGARDING THE MARKETABILITY, VALUE, QUALITY OR CONDITION OF THE TIER 2 PRODUCTS, EXPRESS OR IMPLIED, AND HEREBY DISCLAIMS THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AS TO THE TIER 2 PRODUCTS. BUYER ACCEPTS THE TIER 2 PRODUCTS "AS IS" AND ASSUMES ALL RISKS RELATED THERETO.

Section 4.16 Insurance

. **Schedule 4.16** contains an accurate and complete list of all policies of fire and other casualty, auto liability, general liability, theft, life, workers' compensation, health, directors and officers, business interruption and other forms of insurance owned or held by Seller, specifying the insurer, the policy number, the term of the coverage. All present policies are in full force and effect and all premiums with respect thereto have been paid. Seller has not received any notice from any insurer under such policies of any cancellations, or material premium increases with respect to such policies. **Schedule 4.16** lists each claim made against Seller's insurance policies with respect to the Purchased Assets since December 31, 2009.

Section 4.17 Customers and Suppliers

(a) **Schedule 4.17(a)** sets forth a list of the five (5) largest customers in terms of the dollar value of goods and services sold by Seller relating to the operation of the Product Line during the twelve month period ended September 30, 2012 (each, a "Top Customer"). Except as set forth in **Schedule 4.17(a)**, there has not been in the 12-month period prior to the date hereof any adverse change in the business arrangement with, or in the business relationship or practice of Seller with respect to, any Top Customer. To the Knowledge of Seller, no Top Customer will terminate its relationship with Seller or materially decrease its business with Seller as a result of the transactions contemplated by this Agreement or for any other reason.

(b) **Schedule 4.17(b)** sets forth a list of the five (5) largest suppliers in terms of the dollar value of goods and services purchased by Seller relating to the operation of the Product Line during the twelve month period ended September 30, 2012 (each, a "Top Supplier"). Except as set forth in **Schedule 4.17(b)**, there has not been in the 12-month period prior to the date hereof any adverse change in the business arrangement with, or in the business relationship or practice of Seller with respect to, any Top Supplier. To the Knowledge of Seller, no Top Supplier will terminate its relationship with Seller or materially decrease its business with Seller as a result of the transactions contemplated by this Agreement or for any other reason.

Section 4.18 Warranties

. To Seller's Knowledge, all products manufactured or sold, and all services provided, by Seller relating to the Product Line have complied, and are in compliance with all contractual requirements, warranties or covenants, express or implied, applicable thereto, and with all applicable Laws and governmental, trade association or regulatory specifications therefor or applicable thereto. To Seller's Knowledge, all Tier 2 Products sold by Seller have complied with all contractual requirements, warranties or covenants, express or implied, applicable thereto. No product or service manufactured, sold, delivered or performed by Seller relating to the Product Line or the Tier 2 Products is subject to any guaranty, warranty, express or implied, or other indemnity beyond the standard warranty in the form attached to **Schedule 4.18**. Set forth on **Schedule 4.18** is a true and accurate summary of the warranty claims experience of Seller relating to the operation of the Product Line and the Tier 2 Products since January 1, 2010.

Section 4.19 Manufacturing and Marketing Rights

. Seller has not granted to any Person any rights to manufacture, produce, assemble, license, distribute, market, or sell any products that are or were developed, manufactured, marketed, distributed, or sold by Seller in connection with the Product Line, and Seller is not bound by any agreement that will affect Purchaser's right to develop, manufacture, assemble, distribute, market or sell such products after the Closing.

Section 4.20 No Other Representations and Warranties

. Except for the representations and warranties contained in this [Article IV](#) (including the related portions of the Disclosure Schedules), neither Seller nor any other Person has made or makes any other express or implied representation or warranty, either written or oral, on behalf of Seller, including any representation or warranty as to the accuracy or completeness of any information regarding the Business and the Purchased Assets furnished or made available to Buyer and its Representatives or as to the future revenue, profitability or success of the Business, or any representation or warranty arising from statute or otherwise in law.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the statements contained in this [Article V](#) are true and correct.

Section 5.01 Organization and Authority of Buyer

. Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the state of Oklahoma.

Section 5.02 Authority of Buyer

. Buyer has all necessary corporate power and authority to enter into this Agreement and the other Transaction Documents to which Buyer is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and any other Transaction Document to which Buyer is a party, the performance by Buyer of its obligations hereunder and thereunder and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Buyer. This Agreement has been duly executed and delivered by Buyer, and (assuming due authorization, execution and delivery by Seller) this Agreement constitutes a legal, valid and binding obligation of Buyer enforceable against Buyer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). When each other Transaction Document to which Buyer is or will be a party has been duly executed and delivered by Buyer (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Buyer enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

Section 5.03 No Conflicts; Consents

. The execution, delivery and performance by Buyer of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) result in a violation or breach of any provision of the certificate of incorporation or by-laws of Buyer; (b) result in a violation or breach of any provision of any Law or Governmental Order applicable to Buyer; or (c) require the consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default under or result in the acceleration of any agreement to which Buyer is a party, except in the cases of clauses (b) and (c), where the violation, breach, conflict, default, acceleration or failure to give notice would not have a material adverse effect on Buyer's ability to consummate the transactions contemplated hereby. No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Buyer in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, except for such consents, approvals, Permits, Governmental Orders, declarations, filings or notices which would not have a material adverse effect on Buyer's ability to consummate the transactions contemplated hereby and thereby.

Section 5.04 Brokers

. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Buyer.

Section 5.05 Legal Proceedings

. There are no actions, suits, claims, investigations or other legal proceedings pending or, to Buyer's knowledge, threatened against or by Buyer or any Affiliate of Buyer that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement.

ARTICLE VI

COVENANTS

Section 6.01 Conduct of Business Prior to the Closing

. From the date hereof until the Closing, except as otherwise provided in this Agreement or consented to in writing by Buyer (which consent shall not be unreasonably withheld or delayed), Seller shall (a) conduct the Business in the ordinary course of business; (b) use commercially reasonable efforts to maintain and preserve intact its current Business organization, operations and franchise and to preserve the rights, franchises, goodwill and relationships of its customers, lenders, suppliers, regulators and others having relationships with the Business; (c) maintain the Purchased Assets in a manner consistent with past practices; (d) maintain each of the insurance policies set forth on [Schedule 4.16](#); and (e) maintain its books and records with respect to the Purchased Assets in a manner consistent with past practice.

Section 6.02 Access to Information

. From the date hereof until the Closing, Seller shall (a) afford Buyer and its Representatives reasonable access to and the right to inspect all of the Purchased Assets including without limitation, Books and Records, Assigned Contracts and other documents and data related to the Business; (b) furnish Buyer and its Representatives with such financial, operating and other data and information related to the Business as Buyer or any of its Representatives may reasonably request; and (c) instruct the Representatives of Seller to cooperate with Buyer in its investigation of the Business; *provided, however*, that any such investigation shall be conducted during normal business hours upon reasonable advance notice to Seller, under the supervision of Seller's personnel and in such a manner as not to unreasonably interfere with the conduct of the Business or any other businesses of Seller. Notwithstanding anything to the contrary in this Agreement, Seller shall not be required to disclose any information to Buyer if such disclosure would: (x) in Seller's sole discretion, cause significant competitive harm to Seller and its businesses, including the Business, if the transactions contemplated by this Agreement are not consummated; (y) in the opinion of Seller's legal counsel, jeopardize any attorney-client or other privilege; or (z) in the opinion of Seller's legal counsel, contravene any applicable Law, fiduciary duty or binding agreement entered into prior to the date of this Agreement. Buyer shall not contact Seller's customers without prior notice to Seller.

Section 6.03 Exclusivity

. Seller and Parent agree and covenant that until the Closing or until this Agreement expires or is terminated, neither Seller, Parent, nor any of their Representatives will discuss, negotiate, or offer (or solicit offers) regarding a sale, transfer, or other disposition of the Purchased Assets or the Business or any merger, combination, restructuring, refinancing, or similar transaction involving Seller (a "Sale") with another Person or provide any information to any other Person regarding the Purchased Assets or the Business. Seller represents that it is not a party to or bound by any agreement with respect to a Sale except for this Agreement. Seller or Parent will disclose to Buyer the existence or occurrence of any proposal or contract, whether written or oral, that it has received or may receive during the term of this Agreement with respect to any such Sale and shall furnish Buyer with copies of any such proposal or contract and any written communications and written summaries of any oral communications concerning a Sale.

Section 6.04 Supplement to Disclosure Schedules

. From the date of this Agreement until the Closing, Seller will give prompt notice to Buyer of (a) the occurrence, or non-occurrence, of any event, the occurrence or non-occurrence of which would reasonably be expected to cause any representation or warranty of Seller contained in this Agreement to be untrue or inaccurate in any material respect, in each case at any time from and after the date of this Agreement until the Closing and (b) any failure to comply with or satisfy in any material respect any covenant, condition or agreement of Seller to be complied with or satisfied under this Agreement. If any such event requires any change to the Schedules, Seller shall promptly deliver to Buyer a supplement to the Schedules specifying such change. If Buyer elects to close the transactions contemplated by this Agreement notwithstanding any update to the Schedules with respect to such matter or circumstance pursuant to this [Section 6.04](#), (a) such update shall be deemed to have modified the representations and warranties of Seller, as applicable, (b) Buyer shall have been deemed to have waived any condition to its obligation to close the transactions contemplated by this Agreement relating solely to such matter or circumstance, and (c) Buyer shall not be entitled to any indemnification with respect to the matter or circumstance described in such update.

Section 6.05 Governmental Approvals and Consents

. Each party hereto shall, as promptly as possible, use its commercially reasonable efforts to obtain, or cause to be obtained, all consents, authorizations, orders and approvals from all Governmental Authorities that may be or become necessary for its execution and delivery of this Agreement and the performance of its obligations pursuant to this Agreement and the other Transaction Documents. Each party shall cooperate fully with the other party and its Affiliates in promptly seeking to obtain all such Consents, authorizations, orders and approvals. The parties hereto shall not willfully take any action that will have the effect of delaying, impairing or impeding the receipt of any required Consents, authorizations, orders and approvals. Seller and Buyer shall use commercially reasonable efforts to give all notices to, and obtain all consents from, all third parties that are described in [Schedule 4.03](#); *provided, however*, that no party shall be obligated to pay any consideration therefor to any third party from whom consent or approval is requested.

Section 6.06 Books and Records

(a) In order to facilitate the resolution of any claims made against or incurred by Seller prior to the Closing, or for any other reasonable purpose, for a period of three years after the Closing, Buyer shall:

(i) retain the Books and Records relating to periods prior to the Closing in a manner reasonably consistent with the prior practices of Buyer; and

(ii) upon reasonable notice, afford the Seller's Representatives reasonable access (including the right to make, at Seller's expense, photocopies), during normal business hours, to such Books and Records.

(b) In order to facilitate the resolution of any claims made by or against or incurred by Buyer after the Closing, or for any other reasonable purpose, for a period of three years after the Closing, Seller shall:

(i) retain the books and records of Seller which relate to the Business and its operations for periods prior to the Closing; and

(ii) upon reasonable notice, afford the Buyer's Representatives reasonable access (including the right to make, at Buyer's expense, photocopies), during normal business hours, to such books and records.

(c) Neither Buyer nor Seller shall be obligated to provide the other party with access to any books or records (including personnel files) pursuant to this [Section 6.06](#) where such access would violate any Law.

Section 6.07 Closing Conditions

. From the date hereof until the Closing, each party hereto shall use commercially reasonable efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in [Article VII](#) hereof.

Section 6.08 Public Announcements

. Unless otherwise required by applicable Law or stock exchange requirements (based upon the reasonable advice of counsel), no party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party (which consent shall not be unreasonably withheld or delayed), and the parties shall cooperate as to the timing and contents of any such announcement.

Section 6.09 Transfer Taxes

. All transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax) shall be borne and paid by Buyer when due. Buyer shall, at its own expense, timely file any Tax Return or other document with respect to such Taxes or fees (and Seller shall cooperate with respect thereto as necessary).

Section 6.10 Further Assurances

. Following the Closing, each of the parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement and the other Transaction Documents.

Section 6.11 Confidentiality

. Parent and Seller agree that they shall not divulge, furnish, disclose or make available to any Person (a) any confidential or proprietary information, in whatever form or medium, concerning the Purchased Assets or the Business or with respect to any suppliers, customers, distributors, independent contractors, licensees or licensors and other business relations of the Business or (b) any terms or conditions of this Agreement or the other Transaction Documents (collectively, "[Confidential Information](#)"); provided, however, Parent and Seller shall be permitted to disclose such information to its Representatives who (i) have a need to know such Confidential Information and (ii) have agreed to be bound by the terms and restrictions of this [Section 6.11](#). The foregoing shall not be applicable to any information which is required to be disclosed by law (including any information that must be disclosed because Parent is a public corporation) or any information (i) ascertainable or obtained from public information, (ii) received by Parent or Seller after the Closing from a third party who is not employed by or otherwise affiliated with the Buyer, or (iii) which is or becomes known to the public by any means other than a breach by Seller of this [Section 6.11](#).

Section 6.12 Noncompetition, Non-Solicitation and Nondisparagement

(a) [Noncompetition](#). For a period of five (5) years after the Closing Date (the "[Restricted Period](#)"), neither Parent nor Seller shall, and they shall cause their Affiliates not to, anywhere in the world, directly or indirectly invest in, own, manage, operate, finance, control, advise, render services to or guarantee the obligations of any Person engaged in or planning to become engaged in the business of designing, manufacturing, distributing, marketing, or selling any product that competes directly with any product in the Product Line ("[Competing Business](#)"), provided, however, that Seller or Parent may (i) purchase or otherwise acquire up to (but not more than) two percent (2%) of any class of the securities of any Person engaged in a Competing Business (but may not otherwise participate in the activities of such Person) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Exchange Act, and (ii) advertise and sell the Excluded Assets.

(b) [Non-Solicitation](#). During the Restricted Period, neither Parent nor Seller shall, and they shall cause their Affiliates not to, induce or attempt to induce or encourage others to induce or attempt to induce any Person who is or during the Restricted Period becomes a customer, supplier, referral source, or key business relationship of Buyer to cease doing business with Buyer with respect to the Business and the Product Line or otherwise materially alter their relationship with Buyer with respect to the Business and the Product Line or, in the case of referral sources, to refer their business to any Person engaged in a Competing Business (other than Buyer), or, in the case of customers, to place their business with any Person engaged in a Competing Business (other than Buyer).

(c) [Non-Disparagement](#). Parent and Seller agree that during the Restricted Period they will not, either on their own account or directly or indirectly in conjunction with or on behalf of any other Person, disparage or otherwise speak or write negatively about Buyer or the Business or cause any other person to disparage or speak or write negatively about Buyer or the Business.

(d) [Modification of Covenant](#). If a final judgment of a court or tribunal of competent jurisdiction determines that any term or provision contained in [Section 6.12\(a\)](#) is invalid or unenforceable, then the parties agree that the court or tribunal will have the power to reduce the scope, duration or geographic area of the term or provision, to delete specific words or phrases or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision. This [Section 6.12](#) will be enforceable as so modified after the expiration of the time within which the judgment may be appealed. This [Section 6.12](#) is reasonable and necessary to protect and preserve Buyer's legitimate business interests and the value of the Assets and to prevent any unfair advantage conferred on Seller.

Section 6.13 Employees

. Prior to Closing, Seller will permit Buyer's Representatives to discuss employment with such employees of Seller as Buyer may request.

Section 6.14 License

. Parent and Seller grant to Buyer a limited, non-exclusive and royalty free license to use the names "Astec" and "Astec Underground" solely in connection with Buyer's sale or other disposition of the Tier 2 Products.

Section 6.15 Tax Returns

. As soon as reasonably practicable following the date of this Agreement, Seller will provide Buyer with a correct and complete list all federal, state, local, and Non-U.S. Tax Returns filed with respect to Seller for taxable periods ended on or after December 31, 2009, and such list will indicate those Income Tax Returns that have been audited and those Income Tax Returns that currently are the subject of audit, if any.

ARTICLE VII

CONDITIONS TO CLOSING

Section 7.01 Conditions to Obligations of Buyer

. The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Buyer's waiver, at or prior to the Closing, of each of the following conditions:

(a) The representations and warranties of Parent and Seller contained in [Article IV](#) shall be true and correct in all material respects as of the date hereof and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except for such representations and warranties that are qualified by words or phrases such as "material," "Material Adverse Effect," or similar qualifications, each of which shall be true and correct in all respects as of such dates.

(b) Seller and Parent shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction

Documents to be performed or complied with by it prior to or on the Closing Date.

(c) Seller shall have delivered to Buyer duly executed counterparts to the Transaction Documents (other than this Agreement) and such other documents and deliveries set forth in [Section 3.02\(a\)](#).

(d) Buyer shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Seller, that each of the conditions set forth in [Section 7.01\(a\)](#) and [Section 7.01\(b\)](#) have been satisfied (the “**Seller Closing Certificate**”).

(e) Buyer shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Seller certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Seller authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.

(f) Buyer shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Seller certifying the names and signatures of the officers of Seller authorized to sign this Agreement, the Transaction Documents and the other documents to be delivered hereunder and thereunder.

(g) Buyer’s due diligence investigation of the Purchased Assets, whether performed before or after the date of this Agreement and including without limitation matters disclosed in the Schedules, shall be satisfactory to Buyer in its sole discretion.

(h) No claim, action, suit, or proceeding shall be pending or threatened against Seller or Buyer, which, if adversely determined, would prevent or hinder the consummation of the transactions contemplated by this Agreement or result in the payment of substantial damages as a result of such transactions.

(i) All Encumbrances on the Purchased Assets of any nature whatsoever shall have been released including, without limitation, those security interests listed on [Schedule 4.04](#).

(j) The consents disclosed on, or required to be disclosed on, [Schedule 4.03](#) shall have been obtained.

(k) The consummation of the transactions contemplated by the Stock Purchase Agreement dated as of the date hereof between Buyer and Parent (the “Stock Purchase Agreement”) regarding Buyer’s purchase of the capital stock of American Augers, Inc. shall occur prior to or simultaneously with the Closing.

Section 7.02 Conditions to Obligations of Seller

. The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Seller’s waiver, at or prior to the Closing, of each of the following conditions:

(a) The representations and warranties of Buyer contained in [Article V](#) shall be true and correct in all material respects as of the date hereof and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except for such representations and warranties that are qualified by words or phrases such as “material,” “Material Adverse Effect,” or similar qualifications, each of which shall be true and correct in all respects as of such dates.

(b) Buyer shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

(c) Buyer shall have delivered to Seller the Purchase Price, duly executed counterparts to the Transaction Documents (other than this Agreement) and such other documents and deliveries set forth in [Section 3.02\(b\)](#).

(d) Seller shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Buyer, that each of the conditions set forth in [Section 7.02\(a\)](#) and [Section 7.02\(b\)](#) have been satisfied (the “**Buyer Closing Certificate**”).

(e) Seller shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Buyer certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Buyer authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.

(f) Seller shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Buyer certifying the names and signatures of the officers of Buyer authorized to sign this Agreement, the Transaction Documents and the other documents to be delivered hereunder and thereunder.

(g) The consummation of the transactions contemplated by the Stock Purchase Agreement shall occur prior to or simultaneously with the Closing.

ARTICLE VIII

INDEMNIFICATION

Section 8.01 Survival

. Subject to the limitations and other provisions of this Agreement, the representations and warranties contained herein shall survive the Closing and shall remain in full force and effect until the date that is two (2) years from the Closing Date except that the representations and warranties contained in [Section 4.01](#), [Section 4.02](#), [Section 4.04](#), [Section 4.12](#), [Section 4.13](#), and [Section 4.14](#) (the “**Fundamental Representations**”) shall survive the Closing and remain in full force and effect until the expiration of the statute of limitations applicable to the matter underlying such representations and warranties (giving effect to any waiver, mitigation or extension thereof) plus sixty (60) days. The covenants or other agreements contained in this Agreement shall survive the Closing. Notwithstanding the foregoing, any claims asserted in good faith with reasonable specificity (to the extent known at such time) and in writing by notice from the non-breaching party to the breaching party prior to the expiration date of the applicable survival period shall not thereafter be barred by the expiration of such survival period and such claims shall survive until finally resolved.

Section 8.02 Indemnification By Seller

. Subject to the other terms and conditions of this [Article VIII](#), Parent and Seller shall jointly and severally indemnify Buyer against, and shall hold Buyer harmless from and against, any and all Losses incurred or sustained by, or imposed upon, Buyer based upon, arising out of, with respect to or by reason of:

(a) any inaccuracy in or breach of any of the representations or warranties of Parent or Seller contained in this Agreement;

(b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by Seller or Parent pursuant to this Agreement; or

(c) any Excluded Asset or any Excluded Liability.

Section 8.03 Indemnification By Buyer

. Subject to the other terms and conditions of this [Article VIII](#), Buyer shall indemnify Seller against, and shall hold Seller harmless from and against, any and all Losses incurred or sustained by, or imposed upon, Seller based upon, arising out of, with respect to or by reason of:

(a) any inaccuracy in or breach of any of the representations or warranties of Buyer contained in this Agreement;

(b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by Buyer pursuant to this Agreement; or

(c) any Assumed Liability.

Section 8.04 Certain Limitations

. The party making a claim under this [Article VIII](#) is referred to as the “**Indemnified Party**”, and the party against whom such claims are asserted under this [Article VIII](#) is referred to as the “**Indemnifying Party**”. The indemnification provided for in [Section 8.02](#) and [Section 8.03](#) shall be subject to the following limitations:

(a) The Indemnifying Party shall not be liable to the Indemnified Party for indemnification under [Section 8.02\(a\)](#) or [Section 8.03\(a\)](#), as the case may be, until the aggregate amount of all Losses in respect of indemnification under [Section 8.02](#) or [Section 8.03](#) exceeds \$100,000 (the “**Deductible**”), in which event the Indemnifying Party shall only be required to pay or be liable for Losses in excess of the Deductible; provided that the Deductible shall not apply to or limit (i) claims under [Section 8.02\(a\)](#) with respect to any Fundamental Representation, (ii) claims under [Section 8.02\(b\)](#), [Section 8.02\(c\)](#), [Section 8.03\(b\)](#), or [Section 8.03\(c\)](#), or (iii) claims for fraud.

(b) The aggregate amount of all Losses for which an Indemnifying Party shall be liable pursuant to [Section 8.02\(a\)](#) or [Section 8.03\(a\)](#), as the case may be, shall not exceed \$2,000,000; provided that the foregoing limitation shall not apply to or limit (i) claims under [Section 8.02\(a\)](#) with respect to any Fundamental Representation, (ii) claims under [Section 8.02\(b\)](#), [Section 8.02\(c\)](#), [Section 8.03\(b\)](#), or [Section 8.03\(c\)](#), or (iii) claims for fraud.

(c) Payments by an Indemnifying Party pursuant to [Section 8.02](#) or [Section 8.03](#) in respect of any Loss shall be limited to the amount of any liability or damage that remains after deducting therefrom any insurance proceeds and any indemnity, contribution or other similar payment received or reasonably expected to be received by the Indemnified Party in respect of any such claim (net of any amounts expended by the Indemnified Party to collect such proceeds or payment). The Indemnified Party shall use its commercially reasonable efforts to recover under insurance policies or indemnity, contribution or other similar agreements for any Losses prior to seeking indemnification under this Agreement.

(d) In no event shall any Indemnifying Party be liable to any Indemnified Party for any punitive, incidental, consequential, special or indirect damages, including loss of future revenue or income, loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement, except to the extent the Indemnified Party is liable to a third party for such damages, or diminution of value or any damages based on any type of multiple.

(e) Each Indemnified Party shall take, and cause its Affiliates to take, reasonable steps to mitigate any Loss upon becoming aware of any event or circumstance that would be reasonably expected to, or does, give rise thereto.

(f) Neither Parent nor Seller's liability under this [Article VIII](#) for any Losses based upon or arising out of any inaccuracy in or breach of any of the representations or warranties of Parent or Seller contained in this Agreement shall not be limited or diminished by any knowledge obtained by Buyer during its due diligence investigation in connection with the transactions contemplated by this Agreement.

Section 8.05 Indemnification Procedures

(a) **Third Party Claims.** If any Indemnified Party receives notice of the assertion or commencement of any action, suit, claim or other legal proceeding made or brought by any Person who is not a party to this Agreement or an Affiliate of a party to this Agreement or a Representative of the foregoing (a "**Third Party Claim**") against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party prompt written notice thereof. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third Party Claim at the Indemnifying Party's expense and by the Indemnifying Party's own counsel, and the Indemnified Party shall cooperate in good faith in such defense; provided that the Indemnified Party may not assume the defense of any Third Party Claim if (i) it involves potential criminal Liability of Buyer or any of its employees, (ii) relief other than monetary damages is sought, or (iii) Buyer determines in good faith that the amount necessary to resolve such claims would exceed the amount recoverable under this Agreement. In the event that the Indemnifying Party assumes the defense of any Third Party Claim, subject to [Section 8.05\(b\)](#), the Indemnified Party shall have the right, at its own cost and expense, to participate in the defense of any Third Party Claim with counsel selected by it subject to the Indemnifying Party's right to control the defense thereof. If the Indemnifying Party is not entitled to, elects not to, or loses the right to defend such Third Party Claim or fails to promptly notify the Indemnified Party in writing of its election to defend as provided in this Agreement, the Indemnified Party may, subject to [Section 8.05\(b\)](#), pay, compromise, defend such Third Party Claim and seek indemnification for any and all Losses based upon, arising from or relating to such Third Party Claim. Seller and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available records relating to such Third Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, management employees of the non-defending party as may be reasonably necessary for the preparation of the defense of such Third Party Claim. The Indemnifying Party will lose any previously acquired right to control the defense if for any reason it ceases to diligently conduct such defense.

(b) **Settlement of Third Party Claims.** Notwithstanding any other provision of this Agreement, neither party may enter into any settlement or compromise of, or entry of a judgment with respect to, any Third Party Claim without the prior written consent of the other party (not to be unreasonably withheld) unless the settlement, compromise, or judgment will not result in any liability or the creation of a financial or other obligation on the part of the other party (including restrictions on future operations) and provides, in reasonable form, for the unconditional release of the other party from all liabilities and obligations in connection with such Third Party Claim.

(c) **Direct Claims.** Any claim by an Indemnified Party on account of a Loss which does not result from a Third Party Claim (a "**Direct Claim**") shall be asserted by the Indemnified Party giving the Indemnifying Party prompt written notice thereof. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have 30 days after its receipt of such notice to respond in writing to such Direct Claim. During such 30-day period, the Indemnified Party shall allow the Indemnifying Party and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Party shall assist the Indemnifying Party's investigation by giving such information and assistance (including access to the Indemnified Party's premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request. If the Indemnifying Party does not so respond within such 30-day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

Section 8.06 Tax Treatment of Indemnification Payments

All indemnification payments made under this Agreement shall be treated by the parties as an adjustment to the Purchase Price for Tax purposes, unless otherwise required by Law.

Section 8.07 Exclusive Remedies

Subject to [Section 10.11](#), the parties acknowledge and agree that their sole and exclusive remedy with respect to any and all claims (other than claims arising from intentional fraud on the part of a party hereto in connection with the transactions contemplated by this Agreement) for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement, shall be pursuant to the indemnification provisions set forth in this [Article VIII](#). In furtherance of the foregoing, each party hereby waives, to the fullest extent permitted under Law, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement it may have against the other parties hereto and their Affiliates and each of their respective Representatives arising under or based upon any Law, except pursuant to the indemnification provisions set forth in this [Article VIII](#). Nothing in this [Section 8.07](#) shall limit any Person's right to seek and obtain any equitable relief to which any Person shall be entitled pursuant to [Section 10.11](#).

ARTICLE IX

TERMINATION

Section 9.01 Termination

This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of Seller and Buyer;

(b) by Buyer by written notice to Seller if:

(i) Buyer is not then in material breach of any provision of this Agreement and there has been a material breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Seller pursuant to this Agreement that would give rise to the failure of any of the conditions specified in [Article VII](#) and such breach, inaccuracy or failure cannot be cured by Seller by November 30, 2012; or

(ii) any of the conditions set forth in [Section 7.01](#) shall not have been fulfilled by November 30, 2012, unless such failure shall be due to the failure of Buyer to perform or comply in all material respects with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;

(c) by Seller by written notice to Buyer if:

(i) Seller is not then in material breach of any provision of this Agreement and there has been a material breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Buyer pursuant to this Agreement that would give rise to the failure of any of the conditions specified in [Article VII](#) and such breach, inaccuracy or failure cannot be cured by Buyer by November 30, 2012; or

(ii) any of the conditions set forth in [Section 7.02](#) shall not have been fulfilled by November 30, 2012, unless such failure shall be due to the failure of Seller to perform or comply in all material respects with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing; or

(d) by Buyer or Seller in the event that:

(i) the Closing shall not have occurred by November 30, 2012; or

(ii) any Governmental Authority shall have issued a Governmental Order restraining or enjoining the transactions contemplated by this Agreement, and such Governmental Order shall have become final and non-appealable.

Section 9.02 Effect of Termination

In the event of the termination of this Agreement in accordance with this Article, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of any party hereto, except that

Section 10.11 Specific Performance

. The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

Section 10.12 Counterparts

. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

Section 10.13 Waiver of Jury Trial

. THE PARTIES IRREVOCABLY WAIVE ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION HELD IN ANY COURT ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. THE PARTIES AGREE THAT ANY SUCH ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

PARENT:

ASTEC INDUSTRIES, INC.

By: /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: Group Vice President – Underground Group

SELLER:

ASTEC UNDERGROUND, INC.

By: /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: President

BUYER:

THE CHARLES MACHINE WORKS, INC.

By: /s/ Tiffany Sewell-Howard

Name: Tiffany Sewell-Howard

Title: Chief Executive Officer

[Signature Page to Asset Purchase Agreement]

Schedule 1.01(a) – Knowledge of Seller

FOR THE PURPOSE OF EXECUTING THIS AGREEMENT AS OF THE DATE OF EXECUTION:

<u>Astec Underground, Inc. Corporate Officers</u>	<u>Titles</u>
Thomas R. Campbell	Chairman of the Board
Stephen C. Anderson	Secretary
David C. Silvious	Assistant Secretary/Treasurer

FOR THE PURPOSE OF EXECUTING THE BRING-DOWN CERTIFICATE UNDER SECTION 7.01(d), THE PERSONS LISTED ABOVE AND ALSO:

Gary Heinemann

14711_00/1201/MT1-1518924_1

Schedule 1.01(b) – Items included in the Product Line

- Trencor chain trenchers
- Trencor wheel trenchers
- related parts and components

*four-tracked surface mining machines are not included in the Product Line being sold.

14711_00/1201/MT1-1518924_1

Item Number	Description	Lot #	Item Group
Tier II Equipment			
70102B01	Option, Base Unit - DD65	DD650200406	801
70102B01	Option, Base Unit - DD65	DD65XX80108	801
70102B01	Option, Base Unit - DD65	DD65XX80119	801
70102B01	Option, Base Unit - DD65	DD65XX0K0122	801
70102B01	Option, Base Unit - DD65	DD65XX0K0123	801
70102B01	Option, Base Unit - DD65	DD65XX0K0124	801
70102B01	Option, Base Unit - DD65	DD65XX0K0125	801
70102B01	Option, Base Unit - DD65	DD65XX0K0126	801
70102B01	Option, Base Unit - DD65	DD65XX0K0127	801
70102B01	Option, Base Unit - DD65	DD65XX0K0128	801
70102B01	Option, Base Unit - DD65	DD65XX0K0129	801
70102B01	Option, Base Unit - DD65	DD65XX0K0130	801
70102B01	Option, Base Unit - DD65	DD65XX0L0131	801
70102B01	Option, Base Unit - DD65	DD65XX0L0132	801
70102B01	Option, Base Unit - DD65	DD65XX0L0133	801
70102B01	Option, Base Unit - DD65	DD65XX0L0134	801
70102B01	Option, Base Unit - DD65	DD65XX0L0135	801
70502B01	DD1416 Base Unit	DD141680109	802
70502B01	DD1416 Base Unit	DD141680111	802
70502B01	DD1416 Base Unit	DD141680113	802
70502B01	DD1416 Base Unit	DD141690121	802
70502B01	DD1416 Base Unit	DD141690122	802
70502B01	DD1416 Base Unit	DD141690123	802
70902C01	Option, DD4045 Drill	DD40450L0125	804
Tier II Rental Equipment			
70402B01	Option, DD3238 Base Unit	DD323880160	804
70402B01	Option, DD3238 Base Unit	DD323890162	804

Trencor Fixtures

Description:	Model:	Description:	Model:
<u>Universal Boom Hood</u>	<u>ALL</u>	<u>Mainframe rotating</u>	<u>960</u>
<u>Head Shaft</u>	<u>ALL</u>	<u>Mainframe rotating</u>	<u>1260</u>
<u>Head Shaft</u>	<u>1360</u>	<u>Mainframe rotating</u>	<u>1360W</u>
<u>Head Shaft</u>	<u>1460</u>	<u>Mainframe rotating</u>	<u>1660</u>
<u>Head Shaft</u>	<u>1660</u>	<u>Mainframe rotating</u>	<u>1660Mag</u>
<u>Head Shaft</u>	<u>1760</u>	<u>Rock Guard</u>	<u>1360</u>
<u>Counter Shaft</u>	<u>1060</u>	<u>Rock Guard</u>	<u>1460</u>
<u>Counter Shaft</u>	<u>ALL</u>	<u>Rock Guard</u>	<u>1660</u>
<u>Counter Shaft</u>	<u>1460</u>	<u>Rock Guard</u>	<u>1760</u>
<u>Counter Shaft</u>	<u>1660</u>	<u>Saddle</u>	<u>1360</u>
<u>Counter Shaft</u>	<u>1760</u>	<u>Saddle</u>	<u>1460</u>
<u>Universal Head Light</u>	<u>ALL</u>	<u>Saddle</u>	<u>1660</u>
<u>Universal Conveyor Pulley</u>	<u>ALL</u>	<u>Saddle</u>	<u>1760</u>
<u>Transmission / Engine Mount</u>	<u>1360</u>	<u>Tailwheel</u>	<u>ALL</u>
<u>Transmission / Engine Mount</u>	<u>1460</u>		
<u>Transmission / Engine Mount</u>	<u>1660</u>		
<u>Transmission / Engine Mount</u>	<u>1360W</u>		
<u>Track Frame</u>	<u>ALL</u>		
<u>Ladder</u>	<u>1360</u>		
<u>Ladder</u>	<u>1460</u>		
<u>Ladder</u>	<u>1660</u>		
<u>Ladder</u>	<u>1760</u>		

Pending Claims

1. **4/8/2009 - Juan Ramon Pauda** -- Astec Underground was contacted by attorney Chris Cagle via a letter dated February 12 regarding personal injuries suffered by Mr. Pauda allegedly caused by a machine manufactured by Trencor, Inc. When Astec Underground responded requesting additional information, Mr. Cagle informed it that he no longer represented Mr. Pauda. There has been no further contact from Mr. Pauda regarding this accident. If a suit is filed, the Company plans to vigorously defend this claim. There has been no activity on this potential claim since it was first reported in 2009.
2. **8/17/2010 - James & Bonnie Johnson v. Astec Underground, Inc. - USDC Northern District of Illinois, Eastern Division** -- In a complaint filed on August 17, 2010, the plaintiff alleged that he was injured on August 18, 2008, on a Maxi Sneaker Series C trencher during the course of his employment at a residence in Illinois. As a result of the accident, Mr. Johnson's left leg was amputated. Astec conducted a site inspection on November 30, 2010 which revealed that the interlock on the equipment had been bypassed. The accident could not have occurred if the machine had not been modified. The case has been removed to the U.S. District Court for Northern District of Illinois, Eastern Division. A motion is pending to transfer the case to the U.S. District Court for the Northern District of Illinois, Western Division. To date the parties have agreed to dismiss Diamond Equipment the Astec Underground dealer who sold the trencher and Astec Underground has added Plaintiff's company/employer as a Third-Party Defendant (Rainmaster Irrigation, Inc.). The plaintiff's deposition has been taken and so has the deposition of Rainmaster and its employees who were working with the Plaintiff on the day of the incident. There is outstanding discovery which Astec Underground has issued to both Rainmaster and to the Plaintiff's.
3. **DB Enterprises Developers and Builders, Inc. v. Eagle Power & Equipment Corp. and Astec Industries, Inc.; In the Court of Common Pleas of Delaware County, Pennsylvania; Case No. 12-4641** -- This complaint was filed on June 1, 2012, by DB Enterprises against Eagle Power and Astec Industries, Inc. Astec was served on June 21. "Industries" is obviously the wrong defendant because it appears that at issue is an Astec DD1416 drill, presumably sold by Astec Underground to Eagle. The complaint alleges that on January 23, 2012, DB Enterprises purchased an Astec DD1416 drill from Eagle Power for use in drilling and installing sewer and water lines in residential areas. DB Enterprises alleges that the engine was rusted and the machine was defective.

Schedule 4.01 – Jurisdictions in which the Seller is licensed or Qualified to do Business

1. FL (09/19/08)
2. GA (05/11/06)
3. LA (05/09/11)
4. MO (2/17/09)
5. NJ (05/09/11)
6. NY (05/25/06)
7. OK (01/17/06)
8. PA (2/25/10)
9. TN (12/31/05)
10. TX (12/31/05)
11. VA (12/31/05)
12. WI (05/23/06)

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Schedule 4.03 Required Consents

None

Schedule 4.04 title to Assets and Absence of Encumbrances

THERE ARE NO ENCUMBRANCES ON THE PURCHASED ASSETS

Schedule 4.06 Deviations from Operations in the Ordinary Course of Business since 9/30/12

None

Schedule 4.07 – Material Contracts

Sales Agent Letter Agreement between Astec Underground, Inc. and Frank van der Hilst (international territory manager for Oceania, East-Asia, South Africa) dated August 22, 2008

Sales Agent Letter Agreement between Robin Zahn (international territory manager for Middle East, Europe, and North Africa) and Astec Underground, Inc. dated October 8, 2011 (not executed)

Agent Agreement between Jose R. Jaquez (sales agent for South America, Central America, Mexico, and the Caribbean Islands) and Astec Underground, Inc. dated October 27, 2010

International Manufacturer's Representative Agreement between Modern Structures & Equipment – M.S.E. (manufacturer's representative for Egypt) and Astec Underground, Inc. dated effective April 1, 2011

Sales & Service Agreement International between Alfardan Group Holding Co., LLC (dealer for Qatar) and Astec Underground, Inc. dated May 24, 2011

Distributor Sales & Service Agreement between Galadari Trucks & Heavy Equipment, L.L.C. (dealer for United Arab Emirates) and Astec Underground, Inc. dated May 22, 2011

Dealer Sales & Service Agreement International between Le Monde Underground (dealer for Serbia, Croatia, Bosnia, Montenegro and Slovenia) and Astec Underground, Inc. dated effective March 31, 2011

Agency Agreement between Osborne Engineered Products, SA (PTY) Ltd. (for Angola, Botswana, Burundi, Central African Republic, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Reunion, Rwanda, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Somalia, and Zambia) and Astec Underground, Inc. dated January 1, 2011

Product Development Letter Agreement between UEA Australia and Astec Underground, Inc. dated February 2, 2012

International Sale Consulting Agreement with Rob Verwilligen dated June 15, 2004

Field Service Technician, O & G Agreement with Stelios Dicomitis

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ASTECC UNDERGROUND TRADEMARKS

REGISTRATION #	MARK	REGISTRATION DATE	STATUS
3653782	*A ASTEC UNDERGROUND & design	7/14/09	7/14/15 – Section 8 & 15
3653781	*ASTECC	7/14/09	7/14/15 – Section 8 & 15
2061132	TRENCOR	5/13/97	5/13/17 – Section 8 & 9
2011727	ROAD MINER	10/29/96	10/29/16 – Section 8 & 9

* Excluded Asset pursuant to Section 2.02(e) of the Asset Purchase Agreement. Limited, non-exclusive, royalty free license granted pursuant to Section 6.14 of the Asset Purchase Agreement for use by The Charles Machine Works, Inc. solely in connection with its sale or other disposition of the Tier 2 Products (as defined in the Asset Purchase Agreement).

ASTEC UNDERGROUND PATENTS

APPLICATION #	FILING DATE	TITLE	PATENT #	ISSUE DATE	STATUS
08/456,815	10/15/96	Excavating Machine with Stowable Discharge	5564205	15/15/96	All Fees Paid - Expires 6/1/15

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Schedule 4.11 Environmental Matters

None

Schedule 4.12 Tax Matters

None

Schedule 4.17(a) – Top Five Customers 10/2011 to 09/2012

	<u>Sales</u>	
GO GREEN	\$ 4,723,164	
ASTEC AUSTRALIA PTY LTD **		1,851,295
SIDELINE SPECIALTY EQUIPMENT	1,521,434	
GULF PETROCHEMICAL SERVICES	423,635	
FAYSAL M QAHTANI SONS CO.	236,908	

** The dealer relationship with Astec Australia Pty LTD, a wholly owned subsidiary of Astec Industries, Inc., is in the process of being terminated in favor of selling into the Australian territory directly or via independent agents.

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Schedule 4.17(b) – Top Five Suppliers 10/2011 to 09/2012

	<u>Purchases</u>	
Thompson Machinery Commerce Corp		\$ 401,432
Stewart & Stevenson	150,104	
Jolly Metals	132,971	
Martin Sprocket & Gear, Inc.		128,313
The Sollami Company	96,167	

**The following are suppliers of raw materials used in the manufacture of Trenchor equipment and for other product lines of the seller with purchases in the period over \$400k

	<u>Total Purchases</u>	
Siskin Steel & Supply Co.	\$ 1,904,173	
Kloeckner Metals Corporation		420,716

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Schedule 4.18 - Form of standard Warranty and Claims History

<i>Description</i>	<i>Customer</i>	<i>Original Sale Amount</i>	<i>Original Warranty Acruel Date</i>	<i>01-01-2010 to 09-30-2012 expenses for repairs</i>	<i>Main Problem</i>
T1360-270	Hammer Equipment	\$ 900,000.00	4/30/2008	\$ 81.30	rebuild pumps, also TWO start ups, labor this was a Dealer sold machine
T1460-165	Diethelm Ltd.	\$ 1,224,300.00	3/31/2008	\$ 4,152.25	sprockets on drum and start up
T1660-164	GPS	\$ 1,705,846.00	5/30/2009	\$ 3,172.24	fan came apart and went through the radiator, Pump motor combo exhaust tubes, track wear plates, cylinder misalignment, Labor this is a Dealer sold machine
T1760-103	Elmasa	\$ 2,183,842.89	7/31/2009	\$ 6,676.70	Dealer sold machine
T1360C-275	Snyder	\$ 877,000.00	9/30/2009	\$ 8,757.00	Gauge problem, head shaft bearings, conveyor bearings cylinders corroded, water in hydraulic tank, labor, this was a Dealer sold machine repaired at start-up
T99-1360-273	Astec Australia	\$ 843,790.00	2/28/2010	\$ 6,475.74	General project cost no claims filed
T99-1360W-290	Astec Australia	\$ 936,060.00	4/30/2010	\$ 130.84	failsafe brake for the digging chain, winch, pump motor combo, muffler repaired at start-up
T99-1360C-276	Nova Construction	\$ 894,345.00	5/31/2010	\$ 21,354.83	air conditioner switch Binary Repaired at Start-up
T99-765-125	Public Electrical Works	\$ 616,149.00	8/31/2010	\$ 1,331.61	hydraulic oil cooler repair at Start-up
T99-1460-168	Astec Australia	\$ 1,164,282.00	11/30/2010	\$ 7,365.94	murphy power view display, Track controler, toggle switch, window glass in cab, can bus failure repair at start-up
T99-1360C-277	McLean Equipment	\$ 893,000.00	12/31/2010	\$ 8,258.36	headshaft seals this machine was sold with a 60 day start up to be made in several trips
T99-1660M-161	Gulf Petrochemical	\$ 1,928,300.00	12/31/2010	\$ 22,455.39	no claims
T99-1060-170	Astec Australia	\$ 700,177.60	1/31/2011	\$ -	oil seal repair at Start-up
T99-1360W-291	Sideline Equipment	\$ 1,124,715.00	2/28/2011	\$ 17,664.49	digging chain and sprockets repair at start-up
T99-1460-167	Nova Construction	\$ 1,309,742.00	7/31/2011	\$ 11,360.31	no claims Start-up expense
T99-1660-169	Arabian Agencies Co. LLC	\$ 1,696,691.00	8/31/2011	\$ 11,716.36	top boom cylinder mis-alignment, labor for repair, this isw a dealer sold machine repaired at start-up
T99-1660-167	Astec Australia	\$ 1,570,853.00	11/30/2011	\$ 11,673.30	winch, park brake kit, repaired at start-up
T99-1460-169	Go Green Services LLC	\$ 1,426,000.00	5/31/2012	\$ 14,243.25	cab clylinder, crumber cylinders, motor spool valve, exhaust flex muffler, repaired at start-up
T99-1660-168	Go Green Services LLC	\$ 1,760,000.00	5/31/2012	\$ 14,338.90	no claims
T99-1360W-292	Sideline Equipment	\$ 1,150,000.00	7/31/2012	\$ -	fittings repair at start-up
T991460-170	Go Green Services LLC	\$ 1,426,000.00	8/31/2012	\$ 5,725.12	
Total Claims Incurred in the Period				\$ <u>176,933.93</u>	

FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT

This First Amendment to Asset Purchase Agreement (this "**Amendment**") is made and entered into as of November 30, 2012, by and among ASTEC INDUSTRIES, INC., a Tennessee corporation ("**Parent**"), ASTEC UNDERGROUND, INC., a Tennessee corporation ("**Seller**"), and THE CHARLES MACHINE WORKS, INC., an Oklahoma corporation ("**Buyer**").

RECITALS

WHEREAS, Parent, Seller, and Buyer are parties to that certain Asset Purchase Agreement dated October 31, 2012 (the "**Agreement**"). Capitalized terms used but not otherwise defined in this Amendment shall have the meanings set forth in the Agreement.

WHEREAS, the parties now desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Malaysia Trencher. Seller has agreed to manufacture and sell to MMC GAMUDA KVMRT (T) SDN BHD (the "**Malaysian Customer**") a Trencher Model T1760 Roadminer (the "**Excluded Roadminer**") to be shipped subsequent to the Closing Date. The Excluded Roadminer will be excluded from the inventory sold to Seller. Seller will sell the Excluded Roadminer and shall be entitled to all revenue and profit derived from the sale. To the extent Seller is required to repurchase parts from the Malaysian Customer after the sale of the Excluded Roadminer, Buyer will purchase such parts from Seller at cost.
2. Purchase Price. Notwithstanding anything contained in the Agreement to the contrary, the parties have conducted a test count of Seller's inventory in lieu of conducting a full physical inventory. Furthermore, the parties have agreed that the Purchase Price will be determined subsequent to the Closing Date based on Seller's November 30, 2012 month-end balance sheet to be prepared and delivered to Buyer by the close of business on December 5, 2012. The Purchase Price shall be paid by Buyer to Seller on or before 2:00 p.m. Eastern Standard Time on December 7, 2012 by wire transfer of immediately available funds.
3. Manufacturing of Products. Subsequent to Closing, the parties will negotiate in good faith to memorialize a mutual arrangement pursuant to which Seller will manufacture Trencor products on Buyer's behalf at Seller's facility in Loudon, Tennessee, and American Augers, Inc. (the stock of which is being acquired by Buyer from Parent) will manufacture vertical drills on behalf of Parent at American Augers, Inc.'s facility in Ohio.
4. Inventory with Foreign Subsidiaries. To the extent inventory of Parent's foreign Affiliates is not being conveyed in this transaction, the noncompete provisions of the Agreement shall not prohibit their sale.
5. No Other Amendments. Except as modified by this Amendment, the parties agree that the Agreement shall remain in full force and effect according to its terms.
6. Execution. This Amendment may be executed and delivered in any number of counterparts, each of which so executed and delivered shall be deemed to be an original and all of which shall constitute one and the same instrument. The exchange of executed counterparts of this Amendment or of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery of this Amendment and may be used in lieu of the original for all purposes.

[Signature Page to Follow]

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IN WITNESS WHEREOF, the parties have executed this Amendment as of November 30, 2012.

PARENT:

ASTEC INDUSTRIES, INC.

By: /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: Group Vice President-Underground Group

SELLER:

ASTEC UNDERGROUND, INC.

By: /s/ Thomas R. Campbell

Name: Thomas R. Campbell

Title: Group Vice President-Underground Group

BUYER:

THE CHARLES MACHINE WORKS, INC.

By: /s/ Tiffany Sewell-Howard

Name: Tiffany Sewell-Howard

Title: Chief Executive Officer

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See File "exh10-20addlschedules.pdf" for copies of additional schedules that were not in a format convertible to htm.

**LIST OF
SUBSIDIARIES**

Name	Percentage Owned	Jurisdiction of Incorporation
Astec Agregados E Mineracao Do Brasil	100	Brazil
Astec Australia Pty Ltd	100	Australia
Astec, Inc.	100	Tennessee
Astec Insurance Company	100	Vermont
Astec Mobile Machinery GmbH	100	Germany
Astec Mobile Screens, Inc.	100	Nevada
Astec Underground, Inc.	100	Tennessee
Breaker Technology, Inc.	100	Tennessee
Breaker Technology Ltd	100	Ontario, Canada
Carlson Paving Products, Inc.	100	Washington
CEI Enterprises, Inc.	100	Tennessee
GEFCO, Inc.	100	Tennessee
Heatec, Inc.	100	Tennessee
Johnson Crushers International, Inc.	100	Tennessee
Kolberg-Pioneer, Inc.	100	Tennessee
Osborn Engineered Products SA (Pty) Ltd	94	South Africa
Peterson Pacific Corp.	100	Oregon
Roadtec, Inc.	100	Tennessee
TelSmith, Inc.	100	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-123266) pertaining to the Astec Industries, Inc. 1998 Long-Term Incentive Plan, Astec Industries, Inc. 1998 Non-Employee Directors Stock Incentive Plan, and Astec Industries, Inc. Executive Officer Annual Bonus Equity Election Plan;
- (2) Registration Statement (Form S-8 No. 333-124420) pertaining to the Astec Industries, Inc. 1998 Non-Employee Directors Stock Incentive Plan;
- (3) Registration Statements (Form S-8 Nos. 033-61461 and 333-133013) pertaining to the Astec Industries, Inc. 401(k) Retirement Plan;
- (4) Registration Statement (Form S-8 No. 333-134398) pertaining to the Astec Industries, Inc. 2006 Incentive Plan, and;
- (5) Registration Statement (Form S-8 No. 333-176177) pertaining to the Astec Industries, Inc. 2011 Incentive Plan;

of our reports dated March 1, 2013, with respect to the consolidated financial statements and schedule of Astec Industries, Inc. and the effectiveness of internal control over financial reporting of Astec Industries, Inc., included in this Annual Report on Form 10-K for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Chattanooga, Tennessee
March 1, 2013

**Certification pursuant to Rule 13a-14(a)/15d-14(a),
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, J. Don Brock, certify that:

1. I have reviewed this annual report on Form 10-K of Astec Industries, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2013

/s/ J. Don Brock
J. Don Brock
Chairman of the Board and CEO
(Principal Executive Officer)

**Certification pursuant to Rule 13a-14(a)/15d-14(a),
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David C. Silvious, certify that:

1. I have reviewed this annual report on Form 10-K of Astec Industries, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2013

/s/ David C. Silvious
David C. Silvious
CFO, Vice President and Treasurer
(Principal Financial Officer)

**Certification pursuant to Rule 13a-14(b)/15d-14(b) of the Securities
Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted
pursuant to Section 906 Of The Sarbanes-Oxley Act Of 2002**

In connection with the Annual Report of Astec Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, J. Don Brock and David C. Silvious, certify, pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. Don Brock

J. Don Brock
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)
March 1, 2013

/s/ David C. Silvious

David C. Silvious
Chief Financial Officer, Vice President and Treasurer
(Principal Financial Officer)
March 1, 2013