SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except as noted*)

	2001	2000	1999	1998	1997
Consolidated Income Statement Data					
Net sales	$ 455,839	$ 520,688	$ 449,627	$ 363,945	$ 265,365
Selling, general and administrative expenses	71,691	69,011	56,280	46,796	36,125
Research and development	7,448	6,726	5,356	4,681	3,707
Income from operations	11,784	47,138	52,521	40,427	24,661
Interest expense	9,367	8,652	4,253	2,709	2,398
Net income	1,992	26,281	31,712	24,436	13,809
Earnings per common share*(1)					
Basic	.10	1.37	1.66	1.30	.72
Diluted	.10	1.33	1.59	1.26	.71
Consolidated Balance Sheet Data					
Working capital	$ 161,867	$ 153,389	$ 127,569	$ 81,865	$ 71,459
Total assets	400,691	398,795	355,437	248,320	192,243
Total short-term debt	2,368	1,986	596	646	500
Long-term debt, less current maturities	127,285	118,511	102,685	47,220	35,230
Shareholders' equity	197,347	194,623	167,258	132,658	105,612
Book value per common share at year-end*(1)	10.07	10.07	8.75	7.44	6.12

Quarterly Financial Highlights (Unaudited)		**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2001	Net sales	**$ 143,310**	**$ 126,287**	**$ 103,124**	**$ 83,118**
	Gross profit	**31,323**	**29,422**	**17,192**	**12,986**
	Net income	**5,303**	**4,953**	**(1,346)**	**(6,918)**
	Earnings per common share*				
	Basic	**.27**	**.26**	**(.07)**	**(.35)**
	Diluted	**.27**	**.25**	**(.07)**	**(.35)**
2000	Net sales	$ 140,872	$ 159,726	$ 103,036	$ 117,054
	Gross profit	33,758	40,858	24,608	23,651
	Net income	8,627	12,719	3,407	1,528
	Earnings per common share*				
	Basic	.45	.66	.18	.08
	Diluted	.44	.64	.17	.08

Common Stock Price*				
2001 High	**$ 14.81**	**$ 19.17**	**$ 19.27**	**$ 15.86**
2001 Low	**12.00**	**12.00**	**11.25**	**11.91**
2000 High	28.06	29.88	25.50	14.38
2000 Low	16.75	22.81	9.94	8.38

The Company's common stock is traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market under the symbol ASTE. Prices shown are the high and low bid prices as announced by NASDAQ. The Company has never paid any dividends on its common stock.
The number of common shareholders is approximately 6,000.

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

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

Results of Operations; 2001 vs. 2000

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 17 of the Company's Form 10-K.

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

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

The 2001 domestic sales decreased from $457,189,000 to $364,428,000, a decrease of $92,761,000, or 20.3%, from 2000. Domestic sales are generated primarily from equipment purchases made by customers for use in construction for privately funded infrastructure development and public sector spending on infrastructure development. Public sector spending at the federal, state and local levels is driven in large part by federal spending under the six-year federal-aid highway program, the Transportation Equity Act for the 21st Century ("TEA-21") enacted in June 1998. TEA-21 authorized the appropriation of $217 billion in federal aid for road, highway and bridge construction, repair and improvement and other federal highway and transit projects for federal fiscal years October 1, 1998 through September 30, 2003. During 2001, domestic sales were negatively impacted by a general economic slowdown and delays in capital expenditures by our customers who the Company believes were concerned as to when the economy would improve. The Company believes that the terrorist attacks somewhat paralyzed sales order activity for six to eight weeks. The negative impact from the economic slowdown was felt throughout the year.

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

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

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

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

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

Interest expense for 2001 increased to 2.1% of net sales from 1.7% of net sales for 2000. The increase in dollars related primarily to interest on borrowings required for acquisitions in 2000 and increased working capital. The percentage was impacted by decreased sales volume.

Income tax expense for 2001 was 41.2% of pre-tax income compared to 38.5% in 2000. The non-tax deductible items in 2001 had a greater impact on the effective tax rate percentage relative to a smaller pre-tax income.

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

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

Asphalt Group: This segment had a decrease in sales of $45,149,000, or 24.0%, and a segment profit decrease of $12,975,000, or 72.1%, compared to 2000. The primary reason for the decrease in sales is the economic downturn. Competitive price pressure and lack of utilization of capacity significantly impacted gross profits and segment income.

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

Mobile Asphalt Paving Group: The 2001 sales in this segment increased $15,220,000, or 24.1%, compared to 2000. Excluding acquisitions, sales increased $9,727,000, or 15.4%. Both domestic and international sales increased over 2000 levels. Segment profit increased $677,000, or 8.1%. Product mix, lack of utilization of capacity and increased SG&A expenses impacted the 2001 profit.

Underground Group: The 2001 sales in this segment decreased by $27,093,000, or 35.8%, compared to 2000, primarily due to fewer small machine sales to the communications industry. Segment profit decreased $11,673,000, or 170.8%, primarily from lack of utilization of capacity and increased selling expenses from efforts focused on generating sales to offset the negative impact of the communications industry.

Results of Operations; 2000 vs. 1999

Net income for 2000 was $26,281,000, or $1.33 per diluted share, a decrease of $5,431,000, or 17.1%, compared to net income of $31,712,000, or $1.59 per diluted share in 1999. The weighted average number of common shares outstanding at December 31, 2000 was 19,721,288 compared to 19,930,376 at December 31, 1999.

Net sales for 2000 were $520,688,000, an increase of $71,061,000, or 15.8%, compared to 1999. The 2000 domestic sales increased from $403,832,000 to $457,189,000, or $53,357,000, a 11.7% increase. During 2000, domestic sales were negatively impacted by rising interest rates, volatile and rising gas and oil prices, the beginning stages of a general economic slowdown and delays in public sector highway projects. Most of this negative impact was felt in the second half of the year. The increase in total sales is attributed primarily to 1999 acquisitions accounting for sales of $90,800,000 (with a full year of operations in 2000), offset by a $19,739,000, or 4.3% decline in internally generated sales.

International sales in 2000 increased $17,704,000, or 38.7%, to approximately $63,499,000 compared to 1999 international sales of $45,795,000. Increased sales in Central America, Africa and Australia comprise most of the increase over 1999. Asphalt plant equipment and underground equipment accounted for the increase in Australia. The increase in Africa and Central America was due to aggregate equipment sales.

Parts sales increased from $73,946,000 to $83,960,000, or 13.5%.

Gross profit was 23.6% of net sales in 2000 compared to 25.4% of net sales in 1999. Gross profit declines in asphalt and aggregate equipment accounted for most of the reduction. The erosion in both cases resulted from competitive price pressure and a lack of utilization of capacity primarily due to lower sales volumes.

In 2000, selling, general and administrative expenses increased to 13.3% of net sales from 12.5% of net sales in 1999. The primary reason for the dollar increase in SG&A is related to acquisitions in 1999 and 2000. The percentage is impacted by lower than expected sales while being staffed and equipped for much larger volume.

Research and development expenses increased by $1,370,000, or 25.6%, from $5,356,000 in 1999 to $6,726,000 in 2000. Excluding 1999 and 2000 acquisitions, research and development increased 9.7% as the Company continued developing innovative products.

Interest expense for 2000 increased to 1.7% of net sales from 0.9% of sales for 1999. The increase in dollars related primarily to borrowings required for acquisitions in 1999 and 2000 plus increased working capital.

Income tax expense for 2000 was $16,441,000 compared to $19,819,000 for 1999, or 38.5% of pre-tax income for both years.

The backlog at December 31, 2000 was $89,552,000 compared to $96,572,000 at December 31, 1999 (restated for acquisitions). The backlog for asphalt plant orders decreased significantly from 1999, while aggregate orders, primarily related to South Africa and aggregate systems business, increased from the prior year.

Asphalt Group: This segment had a decrease in sales of $4,703,000, or 2.4%, and a segment profit decrease of $7,452,000, or 29.3%, compared to 1999. The primary reasons for the decrease in sales are instability of gas and oil prices, delay of public sector construction projects and increasing interest rates. Competitive price pressure and lack of utilization of capacity significantly impacted gross profits and segment income.

Aggregate and Mining Group: The 2000 sales for this segment increased $35,731,000, or 23.0%, over 1999, primarily due to the acquisitions of Superior Industries of Morris, Inc. and Breaker Technology Ltd. in late 1999 and Osborn Engineered Products SA (Pty) Ltd. in late 2000. Segment profit increased $168,000, or 0.9% over 1999. Competitive price pressure and lack of utilization of capacity impacted gross profits and segment income.

Mobile Asphalt Paving Group: The 2000 sales in this segment decreased $4,107,000, or 6.1% versus 1999. Segment profit also decreased $2,856,000, or 25.5%. The decrease in sales was present in all product lines. There was some competitive price pressure, but there was less gross profit percent impact than in other segments.

Underground Group: The 2000 sales in this segment increased by $44,238,000, or 140.4%, over 1999, primarily from sales by American Augers, Inc., a November 1, 1999 acquisition, which were included for the full year of 2000. The directional drilling business of American Augers grew in connection with the optical fiber cable and other utility industries. The addition of American Augers' volume required reporting of this new segment under the provisions of FAS 131.

Liquidity and Capital

During 2001, the Company continued to maintain a strong financial position while funding capital projects and working capital needs with cash provided by operations, bank borrowings, Senior Secured Notes and low interest rate Industrial Revenue Bonds. At December 31, 2001, working capital totaled $161,867,000 compared to $153,389,000 at December 31, 2000.

Total short-term borrowings, including current maturities of long-term debt, were $2,368,000 at December 31, 2001 compared to $1,986,000 at December 31, 2000. A financing agreement for imported, purchased inventory items accounted for $964,000 and $1,327,000 of the short-term borrowings at December 31, 2001 and 2000, respectively, while outstanding Industrial Development Revenue Bonds accounted for $500,000 of the current maturities of long-term debt at December 31, 2001 and December 31, 2000. Net cash provided by operating activities for the twelve months ended December 31, 2001 was $1,452,000 compared to $23,288,000 for the twelve months ended December 31, 2000. The decrease in net cash provided by operating activities is primarily due to decreased net income in 2001.

Long-term debt, less current maturities, increased to $127,285,000 at December 31, 2001 from $118,511,000 at December 31, 2000. At December 31, 2001, $80,000,000 was outstanding under the Note Purchase Agreement, $28,013,000 was outstanding under the revolving credit facility and $19,200,000 was outstanding under the long-term principal portion of Industrial Revenue Bonds. The increase in debt from December 31, 2000 related primarily to funding working capital needs for the Company.

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

As of December 31, 2001, the Company was not in compliance with two financial ratio covenants contained in the Note Purchase Agreement. These covenant violations were waived by a majority vote of the note holders effective December 31, 2001. On March 12, 2002 an amendment was executed to the Note Purchase Agreement. The amendment (1) served to relax certain financial ratio covenants for 2002, (2) provided for an interest rate surcharge of 0.375% if the Company does not meet the original financial ratios required by such covenants and (3) provided for additional security for the note holders in certain situations.

The Company currently anticipates that it will satisfy the revised financial ratio covenants of the Note Purchase Agreement for the next four calendar quarters. No assurances can be provided that financial ratio covenant violations of the Note Purchase Agreement will not occur in the future or, if such violations occur, that the note holders will not elect to pursue their contractual remedies under the Note Purchase Agreement, including requiring the immediate repayment in full of all amounts outstanding. There can also be no assurance that the Company can secure adequate or timely replacement financing to repay its note holders in the event of an unanticipated repayment demand.

On September 10, 2001, the Company entered into an unsecured $125,000,000 revolving loan agreement with a syndicate of banks which expires on September 10, 2004. At December 31, 2001, the Company was utilizing $28,013,000 of the amount available under the credit facility for borrowing and an additional $19,943,000 to support outstanding letters of credit (primarily for industrial revenue bonds). At the time of entering into the credit facility, Astec Industries, Inc. was able to borrow up to $105,000,000 while Astec Financial Services, Inc., the Company's captive finance company, was able to borrow up to $50,000,000, with the total borrowing by both companies limited to $125,000,000. Advances to Astec Financial Services, Inc. under this line of credit are limited to "Eligible Receivables" of Astec Financial Services, Inc. as defined in the credit agreement that governs the credit facility. Borrowings under the credit facility bear interest at the Company's option, at a rate from prime to prime plus 0.875%, or from the London Interbank Offering Rate ("LIBOR") plus 1.0% to 1.875%, depending on the leverage ratio as defined by the agreement, applied to a sliding scale. At December 31, 2001, Astec Financial Services, Inc. borrowings represented $17,929,000 of the total $28,013,000 outstanding under the credit facility.

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

As of December 31, 2001, the Company was not in compliance with two financial ratio covenants contained in its credit facility. These covenant violations were waived by a required majority of the members of the Company's banking syndicate effective December 31, 2001. On March 12, 2002 an amendment was executed to the credit facility. The amendment (1) decreased the maximum amount available under the credit facility to $100,000,000, (2) relaxed certain financial ratio covenants for 2002, (3) provided for an interest rate surcharge of 0.375% if the Company does not meet the original financial ratios required by such covenants and (4) provided for additional security for the banks in certain situations.

The Company currently anticipates that it will satisfy the revised financial ratio covenants of the credit facility for the next four calendar quarters. No assurances can be provided that financial ratio covenant violations of the credit facility will not occur in the future or, if such violations occur, that the members of the Company's banking syndicate will not elect to pursue their contractual remedies under the credit facility, including requiring the immediate repayment in full of all amounts outstanding. There can also be no assurance that the Company can secure adequate or timely replacement financing to repay its banking syndicate in the event of an unanticipated repayment demand.

In addition to the bank revolving credit facility, the Company's South African subsidiary, Osborn Engineered Products SA (Pty) Ltd., has a credit facility available of $1,250,000 to finance short-term working capital needs and an additional $1,250,000 available to cover the short-term establishment of letter of credit performance guarantees.

Capital expenditures in 2002 for plant expansion and for further modernization of the Company's manufacturing processes are expected to be approximately $6,600,000. The Company expects to finance these expenditures using the available capacity under the Company's revolving credit facility and internally generated funds. Capital expenditures (excluding those for equipment leased to others) for 2001 were $8,057,000 compared to $21,536,000 in 2000.

Subject to the matters discussed above regarding the Company's ability to comply with the covenants in its Note Purchase Agreement and credit facility or to obtain additional waivers related thereto, the Company believes that its current working capital, cash flows generated from future operations and available capacity remaining under its credit facility will be sufficient to meet the Company's working capital and capital expenditure requirements through December 31, 2002.

For additional information on current and long-term debt, see Note 6 to the Consolidated Financial Statements.

Market Risk and Risk Management Policies

The Company is exposed to changes in interest rates, primarily from its revolving credit agreements and industrial revenue bonds. Under its current policies, the Company uses interest rate derivative instruments to manage exposure to interest rate changes for a portion of its debt arrangements. Taking into account the effects of interest rate derivatives designated as hedges, a hypothetical 100 basis point adverse move (increase) in interest rates would have adversely affected interest expense by approximately $422,000 for the year ended December 31, 2001. The Company's earnings and cash flows are also subject to fluctuations due to changes in foreign currency exchange rates; however, these fluctuations would not be significant to the Company's consolidated operations.

Contingencies

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

Certain customers have financed purchases of the Company's products through arrangements in which the Company is contingently liable for customer debt aggregating $12,137,000 and $18,816,000 at December 31, 2001 and 2000, respectively. These obligations average five years in duration and have minimal risk. Astec Financial Services, Inc. sold both finance and operating leases with limited recourse, generally not exceeding 15% of the purchase price, subject to elimination of recourse responsibilities through remarketing of equipment.

Other - The Company is contingently liable under letters of credit of approximately $19,943,000 primarily related to Industrial Revenue Bonds.

Environmental Matters

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

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Application of these principles requires the Company to make estimates and judgments that affect the amounts as reported in the consolidated financial statements. Accounting policies that are critical to aid in understanding and evaluating the results of operations and financial position of the Company include the following:

Inventory Valuation: Inventories are valued at the lower of cost or market. The most significant component of the Company's inventories is steel. Open market prices, which are subject to volatility, determine the cost of steel for the Company. During periods when open market prices decline, the Company may need to provide an allowance to reduce the carrying value of the inventory. In addition, certain items in inventory may be considered obsolete, and as such, the Company may establish an allowance to reduce the carrying value of these items to their net realizable value. The amounts in these inventory allowances are determined by the Company based on certain estimates, assumptions and judgments made from the information available at that time.

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

Litigation Contingencies: As a normal course of business in the industry, the Company is named as a defendant in a number of legal proceedings associated with product liability matters. The Company does not believe they are a party to any legal proceedings that will have a material adverse effect on the consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions related to these proceedings.

As discussed in Note 9 of the consolidated financial statements, as of December 31, 2001, the Company has accrued its best estimate of the probable cost for the resolution of these claims. This estimate has been developed in consultation with outside counsel that is handling the defense in these matters and is based upon a combination of litigation and settlement strategies. Certain litigation is being addressed before juries in states where past jury awards have been significant. To the extent additional information arises or strategies change, it is possible that the Company's best estimate of the probable liability in these matters may change.

Recently Issued Accounting Standards: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impariment tests in accordance with SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the Statement in 2002 is expected to increase pre-tax income $2,154,000, or $.11 per share. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of the beginning of its fiscal year. The Company has not yet determined what the effect of these tests will be on the income and financial position of the Company.

CONSOLIDATED BALANCE SHEETS

	December 31,	
Assets	**2001**	**2000**
Current assets:		
Cash and cash equivalents Note 1	$ 6,670,178	$ 7,053,328
Trade receivables less allowance for doubtful accounts of $1,806,000 in 2001 and $2,105,000 in 2000	53,057,092	55,500,511
Finance receivables Note 13	13,792,674	23,454,534
Notes and other receivables	1,648,888	1,921,976
Inventories Notes 1, 3	128,995,577	126,307,828
Prepaid expenses	4,266,036	3,595,524
Refundable income taxes	7,640,150	3,893,629
Deferred tax asset Note 8	8,929,188	7,760,098
Other current assets	260,809	159,059
Total current assets	225,260,592	229,646,487
Property and equipment, net Note 4	123,394,035	126,927,532
Other assets:		
Goodwill	36,114,983	37,207,924
Finance receivables Note 13	14,550,590	3,500,180
Notes receivable	16,527	362,138
Other	1,354,259	1,151,006
Total other assets	52,036,359	42,221,248
Total assets	$400,690,986	$398,795,267
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt Note 6	$ 2,368,496	$ 1,986,424
Accounts payable	26,245,927	35,585,181
Customer deposits	8,343,714	6,463,715
Accrued product warranty	3,277,268	4,441,845
Accrued payroll and related liabilities	3,389,987	14,019,935
Other accrued liabilities	19,768,419	13,760,679
Total current liabilities	63,393,811	76,257,779
Long-term debt, less current maturities Note 6	127,284,692	118,510,887
Deferred tax liability Note 8	9,038,640	6,770,124
Deferred retirement costs Note 7	1,916,424	1,648,226
Other	1,361,160	537,123
Total liabilities	202,994,727	203,724,139
Minority interest	349,611	448,188
Shareholders' equity: Notes 1, 10		
Preferred stock - authorized 4,000,000 shares of $1.00 par value; none issued		
Common stock - authorized 40,000,000 shares of $.20 par value; issued and outstanding - 19,603,179 in 2001 and 19,319,746 in 2000	3,920,635	3,863,949
Additional paid-in capital	51,681,027	48,440,594
Accumulated other comprehensive income	(2,776,131)	(210,298)
Retained earnings	144,521,117	142,528,695
Total shareholders' equity	197,346,648	194,622,940
Total liabilities and shareholders' equity	$400,690,986	$398,795,267

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2001	2000	1999
Net sales	$ 455,839,164	$ 520,687,851	$ 449,627,457
Cost of sales	364,915,606	397,813,019	335,471,243
Gross profit	90,923,558	122,874,832	114,156,214
Selling, general and administrative expenses	71,690,984	69,011,339	56,279,937
Research and development expenses	7,448,332	6,725,884	5,355,736
Income from operations	11,784,242	47,137,609	52,520,541
Other income (expense):			
Interest expense	(9,367,054)	(8,652,339)	(4,253,219)
Interest income	1,585,039	2,239,786	1,136,777
Amortization of goodwill and other intangible assets	(2,202,677)	(2,032,724)	(1,032,161)
Other income (expense) - net	2,039,420	4,234,303	3,153,389
Equity in (loss) income of joint venture	(241,922)	(195,781)	6,096
Income before income taxes	3,597,048	42,730,854	51,531,423
Income taxes Note 8	1,480,748	16,441,440	19,819,145
Income before minority interest	2,116,300	26,289,414	31,712,278
Minority interest	123,878	8,328	
Net income	$ 1,992,422	$ 26,281,086	$ 31,712,278
Earnings per Common Share Note 1			
Net income:			
Basic	$ 0.10	$ 1.37	$ 1.66
Diluted	0.10	1.33	1.59
Weighted average number of common shares outstanding:			
Basic	19,441,818	19,221,754	19,064,516
Diluted	19,753,226	19,721,288	19,930,376

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	1999
Cash Flows from Operating Activities			
Net income	$ 1,992,422	$ 26,281,086	$ 31,712,278
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,045,572	15,379,703	11,695,862
Provision for doubtful accounts	1,637,639	807,569	425,557
Provision for inventory reserves	990,904	1,437,610	1,265,120
Provision for warranty	3,778,458	1,308,058	1,466,176
(Gain) loss on disposition of fixed assets	191,122	(94,261)	(146,268)
Gain on sale of equipment on operating lease	(626,289)	(2,142,119)	(969,845)
Gain on sale of finance receivables	(408,840)	(438,010)	(215,730)
Equity in loss (income) of joint venture	241,922	195,781	(6,096)
Minority interest in earnings of subsidiary	(98,578)	(8,328)	
(Increase) decrease in:			
Receivables	677,165	8,155,450	(6,011,492)
Inventories	(4,446,613)	(18,901,256)	(11,136,071)
Prepaid expenses	(879,420)	230,183	(1,683,262)
Deferred tax asset	(1,169,090)	494,685	1,229,527
Other assets	(991,190)	459,650	135,646
Increase (decrease) in:			
Accounts payable	(11,046,880)	(3,675,821)	2,025,578
Customer deposits	2,191,155	(575,633)	(4,171,065)
Accrued product warranty	(4,855,359)	(1,249,472)	(2,090,771)
Income taxes payable	(1,339,156)	(984,131)	(329,480)
Loss reserves of captive insurance company	749,312		
Other accrued liabilities	(2,101,412)	(3,272,367)	4,113,914
Foreign currency transaction (gain) loss	(80,925)	(120,257)	27,293
Net cash provided by operating activities	1,451,919	23,288,120	27,336,871
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment - net	236,286	319,789	266,601
Expenditures for property and equipment	(8,057,422)	(21,535,875)	(28,384,787)
Proceeds from sale of equipment on operating lease	25,141,768	48,920,688	29,748,064
Expenditures for equipment on operating lease	(28,001,408)	(53,882,130)	(25,216,820)
Additions to finance receivables	(46,908,713)	(74,134,723)	(37,820,908)
Collections of finance receivables	26,729,468	32,368,390	390,450
Proceeds from sale of finance receivables	18,996,855	38,554,353	28,093,482
Additions to notes receivable	(692,760)	(52,000)	(1,421,804)
Repayments on notes receivable	460,885	115,773	898,811
Cash payments in connection with business combinations, net of cash acquired		(7,468,669)	(52,448,406)
Net cash used by investing activities	(12,095,041)	(36,794,404)	(85,895,317)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	**2000**	**1999**
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	$ 748,153	$ 1,005,502	$ 1,364,275
Net borrowings (repayments) under revolving credit loan	(70,353,821)	16,285,337	55,788,775
Principal repayments of industrial bonds, loans and notes payable	(4,520,082)	(2,932,513)	(503,057)
Proceeds from debt and notes payable	84,632,406	2,833,145	41,189
Net cash provided by financing activities	10,506,656	17,191,471	56,691,182
Effect of exchange rates on cash	(246,684)	(356,929)	239,595
Increase (decrease) in cash and cash equivalents	(383,150)	3,328,258	(1,627,669)
Cash and cash equivalents, beginning of period	7,053,328	3,725,070	5,352,739
Cash and cash equivalents, end of period	$ 6,670,178	$ 7,053,328	$ 3,725,070
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 7,823,874	$ 8,499,094	$ 4,425,526
Income taxes	$ 4,882,833	$ 17,934,641	$ 20,472,411
Tax benefits related to stock options:			
Refundable income taxes	$ 1,051,615	$ 555,962	$ 856,000
Additional paid-in capital	(1,051,615)	(555,962)	(856,000)
Non-cash business combination:			
Investment in subsidiary	$ 144,600	$ 1,576,844	$ 1,556,523
Accrued liability	1,352,751	(1,576,844)	(1,556,523)
Common stock	(26,735)		
Additional paid-in capital	(1,470,616)		

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2001, 2000 and 1999

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance December 31, 1998	**18,967,232**	**$3,793,446**	**$44,332,177**	**$84,535,331**		**$132,660,954**
Net income				31,712,278		31,712,278
Other comprehensive income:						
Foreign currency translation adjustment					$266,888	266,888
Comprehensive income						31,979,166
Exercise of stock options, including tax benefit	139,609	27,922	2,189,534			2,217,456
Stock issued in business combination	14,296	2,859	397,141			400,000
Balance December 31, 1999	**19,121,137**	**3,824,227**	**46,918,852**	**116,247,609**	**266,888**	**167,257,576**
Net income				26,281,086		26,281,086
Other comprehensive income:						
Foreign currency translation adjustment					(477,186)	(477,186)
Comprehensive income						25,803,900
Exercise of stock options, including tax benefit	198,609	39,722	1,521,742			1,561,464
Balance December 31, 2000	**19,319,746**	**3,863,949**	**48,440,594**	**142,528,695**	**(210,298)**	**194,622,940**
Net income				1,992,422		1,992,422
Other comprehensive income:						
Foreign currency translation adjustments					(2,126,103)	(2,126,103)
Unrealized loss on cash flow hedge, net of tax					(439,730)	(439,730)
Comprehensive income						(573,411)
Exercise of stock options, including tax benefit	149,758	29,951	1,769,817			1,799,768
Stock issued in business combination	133,675	26,735	1,470,616			1,497,351
Balance December 31, 2001	**19,603,179**	**$3,920,635**	**$51,681,027**	**$144,521,117**	**$(2,776,131)**	**$197,346,648**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2001, 2000 and 1999

1. Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of Astec Industries, Inc. and its subsidiaries. The Company's wholly-owned or consolidated subsidiaries at December 31, 2001 are as follows:

American Augers, Inc.
Astec, Inc.
Astec Financial Services, Inc.
Astec Insurance Company
Astec Systems, Inc.
Breaker Technology, Inc.
Breaker Technology Ltd.
Carlson Paving Products, Inc.
CEI Enterprises, Inc.
Heatec, Inc.
Johnson Crushers International, Inc.
Kolberg-Pioneer, Inc.
Osborn Engineered Products SA (Pty) Ltd. (88%)
Production Engineered Products, Inc.
Roadtec, Inc.
Superior Industries of Morris, Inc.
Telsmith, Inc.
Trencor, Inc.

All significant intercompany transactions have been eliminated in consolidation.

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

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

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

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

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

Goodwill - Goodwill represents the excess of cost over the fair value of net identifiable assets acquired. Goodwill amounts are being amortized using the straight-line method over 20 years. Accumulated goodwill amortization was approximately $7,258,000 and $5,104,000 at December 31, 2001 and 2000, respectively.

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

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

Advertising Expense - The cost of advertising is expensed as incurred. The Company incurred approximately $4,447,000, $3,478,000 and $3,964,000 in advertising costs during 2001, 2000 and 1999, respectively.

Stock-based Compensation - The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for employee stock options in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and, accordingly, recognizes no compensation expense for the stock option grants. The Company adopted SFAS No. 123, *Accounting for Stock-based Compensation*, in 1996 and is utilizing the disclosure only option permitted by the statement for employee stock options. See Note 10.

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

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

	Year Ended December 31,		
	2001	**2000**	**1999**
Numerator:			
Net income	$ 1,992,422	$ 26,281,086	$ 31,712,278
Denominator:			
Denominator for basic earnings per share	19,441,818	19,221,754	19,064,516
Effect of dilutive securities:			
Employee stock options	311,408	499,534	865,860
Denominator for diluted earnings per share	19,753,226	19,721,288	19,930,376
Earnings per common share:			
Basic	$ 0.10	$ 1.37	$ 1.66
Diluted	$ 0.10	$ 1.33	$ 1.59

Derivatives and Hedging Activities - In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which was amended by SFAS Nos. 137 and 138. SFAS 133 requires the Company to recognize all derivatives in the balance sheet at fair value. Derivatives that are not hedged must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through income or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized in income. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 had no material impact on the Company's income or financial position.

Shipping and Handling Fees and Cost - The Company records revenues earned for shipping and handling as net sales, while the cost of shipping and handling is classified as cost of goods sold. Revenues and expenses were $10,482,000 and $12,119,000 for 2001, $11,857,000 and $12,719,000 for 2000 and $9,169,000 and $8,706,000 for 1999, respectively.

New Accounting Standards - In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations* and No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets aris-

ing from business combinations completed after that date. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite lives. SFAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives.

The Company will adopt SFAS 142 effective January 1, 2002. Application of the non-amortization provision of SFAS 142 is expected to result in an increase in net income of $2,154,000, or $.11 per share in 2002. The Company will test goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment, while the second step measures impairment, if any. The Company expects to complete the first of the required impairment tests of goodwill as of January 1, 2002 in the first quarter of 2002. The Company has not yet determined what the effect of these tests will be on the income and financial position of the Company. Any impairment charge from the transitional tests would be recorded as the cumulative effect of a change in accounting principle in the first quarter of 2002.

Reclassifications - Certain amounts for 2000 and 1999 have been reclassified to conform with the 2001 presentation.

2. Business Combinations

The Company's acquisitions have been accounted for using the purchase method of accounting, and accordingly, the operating results of the acquired businesses are included in the Company's consolidated financial statements from the respective acquisition dates. The assets acquired and liabilities assumed were recorded at estimated fair value. That portion of the purchase price in excess of the fair market value of the net identifiable assets acquired is recorded as goodwill and is being amortized using the straight-line method over 20 years.

On August 13, 1999, the Company acquired substantially all of the assets of Teledyne Specialty Equipment's Construction and Mining business unit from Allegheny Teledyne, Inc. for approximately $18,900,000 in cash. The acquired business unit, having operations in both the United States and Canada, operates as Breaker Technology, Inc. in the U.S. and as Breaker Technology Ltd. in Canada ("BTI"). On October 29, 1999, the Company purchased the operating assets and liabilities of American Augers, Inc. for approximately $15,500,000 in cash and repayment of approximately $6,200,000 of debt. On November 1, 1999, the Company acquired the operating assets and liabilities of Superior Industries of Morris, Inc. ("Superior") for $17,000,000 in cash.

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

A summary of the net assets acquired is as follows:

	BTI	AMERICAN AUGERS	SUPERIOR	OSBORN	CARLSON
Current assets	$12,218,333	$10,826,332	$ 6,446,529	$7,634,984	$2,229,110
Property, plant and equipment	1,847,523	2,950,450	9,256,214	1,843,815	715,884
Other assets		573,505	109,038	48,809	19,005
Current liabilities	(6,159,326)	(5,796,498)	(1,865,435)	(4,667,809)	(640,400)
Other liabilities		(6,208,004)	(1,189,218)		(964,365)
Goodwill	11,025,239	11,700,858	2,548,938	(1,194,292)	4,385,025
Less: Minority interest				(439,861)	
Net assets acquired excluding cash	18,931,769	14,046,643	15,306,066	3,225,646	5,744,259
Cash		1,445,543	1,693,934		2,585
Net assets acquired	$18,931,769	$15,492,186	$17,000,000	$3,225,646	$5,746,844

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisitions had occurred at the beginning of the year. The unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as goodwill amortization expense and interest expense on acquisition debt. They do not purport to be indicative of the results that would have occurred had the acquisitions taken place at the beginning of the periods presented or of results which may occur in the future.

	December 31, 2000
Net sales	$ 549,524,000
Income from operations	54,138,000
Net income	26,655,000
Per common share outstanding:	
Basic	$ 1.39
Diluted	$ 1.35

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

3. Inventories

Inventories consisted of the following:

	December 31, 2001	December 31, 2000
Raw materials and parts	$ 42,745,772	$ 41,783,985
Work-in-process	27,270,361	27,520,881
Finished goods	37,645,041	39,574,507
Used equipment	21,334,403	17,428,455
Total	$128,995,577	$126,307,828

4. Property and Equipment

Property and equipment consisted of the following:

	December 31, 2001	December 31, 2000
Land, land improvements and buildings	$ 74,499,184	$ 72,799,811
Equipment	106,544,080	101,544,216
Less accumulated depreciation	(67,562,056)	(55,543,607)
Land, buildings and equipment - net	113,481,208	118,800,420
Rental property:		
Equipment	12,163,290	9,036,202
Less accumulated depreciation	(2,250,463)	(909,090)
Rental property - net	9,912,827	8,127,112
Total	$123,394,035	$126,927,532

Depreciation expense was approximately $14,807,000, $13,347,000 and $10,664,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

5. Leases

The Company leases certain land, buildings and equipment that are used in its operations. Total rental expense charged to operations under operating leases was approximately $4,072,000, $4,054,000 and $3,329,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Minimum rental commitments for all noncancelable operating leases at December 31, 2001 are as follows:

2002	$ 3,046,268
2003	2,242,358
2004	1,654,618
2005	218,522
2006	39,770
Thereafter	-

The Company also leases equipment to customers under contracts generally ranging from 36 to 48 months. Rental income under such leases was $2,846,000, $3,908,000 and $2,467,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Minimum rental payments to be received for equipment leased to others at December 31, 2000 are as follows:

2002	$ 1,726,235	2005	$ 1,760,813
2003	1,257,956	2006	2,179,695
2004	1,464,789	Thereafter	4,332,649

6. Long-term Debt

Long-term debt consisted of the following:

	December 31,	
	2001	2000
Revolving credit loan of $125,000,000 at December 31, 2001, at interest rates from 4.38% to 5.63% at December 31, 2001	$ 28,012,794	
$80,000,000 Senior Secured Notes due September 10, 2011, at 7.56%, payable in annual installments of $11,428,571 beginning September 10, 2005	80,000,000	
Revolving credit loan of $150,000,000 at December 31, 2000, originally expiring November 22, 2002, at interest rates from 7.50% to 9.50% at December 31, 2000		$ 98,700,000
Industrial Development Revenue Bonds payable in annual installments of $500,000 through 2006 at weekly negotiated interest rates	2,500,000	3,000,000
Industrial Development Revenue Bonds due in 2019 at weekly negotiated interest rates	8,000,000	8,000,000
Industrial Development Revenue Bonds due in 2028 at weekly negotiated interest rates	9,200,000	9,200,000
Other current notes payable	1,940,394	1,597,311
Total long-term debt	129,653,188	120,497,311
Less current maturities	2,368,496	1,986,424
Long-term debt less current maturities	$127,284,692	$118,510,887

The Company has an unsecured $125,000,000 revolving line of credit. The agreement contains borrowing sub-limits which allow the Company and its subsidiary, Astec Financial Services, Inc., to borrow up to $105,000,000 and $50,000,000 respectively, not to exceed the total commitment amount. Advances under Astec Financial's sub-limit are limited to eligible receivables as defined in the agreement. Amounts outstanding under the agreement bear interest, at the Company's option, at a rate from prime to prime plus .875%, or from 1.0% to 1.875% above the London Interbank Offering Rate. The interest rate applied to borrowings is based on a leverage ratio, calculated quarterly, as defined by the credit agreement. Both the credit agreement and the senior secured note agreement contain certain restrictive covenants relative to operating ratios and capital expenditures and also restrict the payment of dividends. At December 31, 2001, the Company was not in compliance with two covenants of the revolving credit facility and the senior secured note agreement. The Company obtained waivers of its noncompliance with the covenants of these agreements at December 31, 2001. The agreements were amended on March 12, 2002 to modify certain covenant requirements for periods after December 31, 2001. The aggregate commitment under the line of credit was reduced on March 12, 2002 to $100,000,000 expiring September 10, 2004.

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

2001	$ 2,368,496	2004	$ 28,523,429
2002	539,124	2005	11,224,921
2003	511,504	Thereafter	86,485,714

For 2001, the weighted average interest rate on short-term borrowings, which includes current maturities of Industrial Revenue Bonds, was 3.52%.

7. Retirement Benefits

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

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

	Pension Benefits		Other Benefits	
		2000		2000
Change in benefit obligation				
Benefit obligation at beginning of year	$ 7,209,303	$ 6,307,948	$ 1,655,500	$ 1,390,967
Service cost	393,391	351,320	117,596	86,027
Interest cost	528,474	504,384	122,610	103,596
Actuarial (gain) loss	358,657	368,022	105,865	211,149
Participant contributions				367,665
Benefits paid	(313,656)	(322,371)	(85,147)	(503,904)
Benefit obligation at end of year	8,176,169	7,209,303	1,916,424	1,655,500
Change in plan assets				
Fair value of plan assets at beginning of year	6,372,805	6,992,158		
Actual return on plan assets	(721,213)	(296,982)		
Benefits paid	(313,656)	(322,371)		
Fair value of plan assets at end of year	5,337,936	6,372,805		
Funded status (underfunded)	(2,838,233)	(836,498)	(1,916,424)	(1,655,500)
Unrecognized net actuarial (gain) loss	2,021,156	383,049	536,033	460,723
(Accrued) benefit cost	$ (817,077)	$ (453,449)	$ (1,380,391)	$ (1,194,777)
Weighted-average assumptions as of December 31				
Discount rate	7.25%	7.75%	7.25%	7.75%
Expected return on plan assets	9.00%	9.00%		
Rate of compensation increase	4.00%	4.00%		

The weighted average annual assumed rate of increase in per capita health care costs is 11.0% for 2002 and is assumed to decrease gradually to 5.0% for 2009 and remain at that level thereafter. A 1.0% increase or decrease in the medical inflation rate would not have a significant effect on either the benefit obligation or the aggregate service and interest cost components of net periodic benefit cost.

Net periodic benefit cost for 2001, 2000 and 1999 included the following components:

	Pension Benefits			Other Benefits		
	2001	2000	1999	**2001**	2000	1999
Components of net periodic benefit cost						
Service cost	$ 393,391	$ 351,320	$ 329,864	$ 117,596	$ 86,027	$ 80,326
Interest cost	528,474	504,384	449,209	122,610	103,596	82,311
Expected return on plan assets	(558,237)	(614,194)	(592,008)			
Amortization of transition obligation				30,555	33,700	33,700
Recognized net actuarial (gain) loss					(12,164)	(11,180)
Net periodic benefit cost	$ 363,628	$ 241,510	$ 187,065	$ 270,761	$ 211,159	$ 185,157

8. Income Taxes

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

	Year Ended December 31,		
	2001	2000	1999
United States	$ 1,933,324	$ 41,692,857	$ 51,836,482
Foreign	1,663,724	1,037,997	(305,059)
Income before income taxes	$ 3,597,048	$ 42,730,854	$ 51,531,423

The provision for income taxes consisted of the following:

	Year Ended December 31,		
	2001	2000	1999
Current	$ 381,396	$ 15,803,033	$ 19,188,853
Deferred provision	1,099,352	638,407	630,292
Total provision for income taxes	$ 1,480,748	$ 16,441,440	$ 19,819,145

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

	Year Ended December 31,		
	2001	2000	1999
Tax at statutory rates	$ 1,258,967	$ 14,934,626	$ 18,035,999
Benefit from foreign sales corporation	(474,315)	(516,982)	(241,012)
State taxes, net of federal income tax benefit	1,586	1,389,290	1,578,250
Income taxes of other countries	(15,047)	66,030	(4,000)
Permanent differences	859,329	844,758	563,021
Other items	(149,772)	(276,282)	(113,113)
Income taxes	$ 1,480,748	$ 16,441,440	$ 19,819,145

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

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

	Year Ended December 31,	
	2001	2000
Deferred tax assets:		
Inventory reserves	$ 2,762,332	$ 2,581,700
Warranty reserves	979,683	1,381,700
Bad debt reserves	911,759	774,300
Other accrued expenses	5,577,996	4,250,000
Total deferred tax assets	10,231,770	8,987,700
Deferred tax liabilities:		
Property and equipment	9,823,277	7,933,400
Other	517,945	64,400
Total deferred tax liabilities	10,341,222	7,997,800
Net deferred tax asset (liability)	$ (109,452)	$ 989,900

9. Contingencies

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

Certain customers have financed purchases of the Company's products through arrangements in which the Company is contingently liable for customer debt aggregating $12,137,000 and $18,816,000 at December 31, 2001 and 2000, respectively. These obligations average five years in duration and have minimal risk. Astec Financial Services, Inc. sold both finance and operating leases with limited recourse, generally not exceeding 15% of the purchase price, subject to elimination of recourse responsibilities through remarketing of equipment.

Other - The Company is contingently liable under letters of credit of approximately $19,943,000 primarily related to Industrial Revenue Bonds.

10. Shareholders' Equity

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, *Accounting for Stock-based Compensation*, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is generally recognized.

Under terms of the Company's stock option plans, officers and certain other employees may be granted options to purchase the Company's common stock at no less than 100% of the market price on the date the option is granted. The Company has reserved shares of common stock for exercise of outstanding non-qualified options and incentive options of officers and employees of the Company and its subsidiaries at prices determined by the Board of Directors. In addition, a Non-employee Directors Stock Incentive Plan has been established to allow non-employee directors to have a personal financial stake in the Company through an ownership interest. Directors may elect to receive their compensation in common stock, deferred stock or stock options. Options granted under the Non-employee Directors Stock Incentive Plan and the Executive Officer Annual Bonus Equity Election Plan vest and become fully exercisable immediately. All other options outstanding vest over 12 months. All stock options have a ten-year term. The shares reserved under the various stock option plans are as follows: (1) 1992 Stock Option Plan - 300,948, (2) 1998 Long-term Incentive Plan - 2,296,600, (3) Executive Officer Annual Bonus Equity Election Plan - 16,892 and (4) 1998 Non-employee Directors Stock Plan - 7,729.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 2000, and 2001, respectively; risk-free interest rates of 5.58%, 5.25% and 3.93%, volatility factors of the expected market price of the Company's common stock of .381, .444 and .460; and a weighted-average expected life of the option of four years.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows.

	Year Ended December 31, 2001	2000	1999
Pro forma net income	$ (618,844)	$ 23,156,686	$ 30,466,266
Pro forma earnings per share:			
Basic	$ (.03)	$ 1.20	$ 1.60
Diluted	$ (.03)	$ 1.17	$ 1.53

A summary of the Company's stock option activity and related information for the years ended December 31, 2001, 2000 and 1999 follows:

	Year Ended December 31, 2001		2000		1999	
	Options	**Weighted Avg. Exercise Price**	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Options outstanding, beginning of year	2,173,034	$ 20.53	1,866,730	$ 17.23	1,389,800	$ 10.91
Options granted	603,593	$ 12.92	580,348	$ 25.58	620,161	$ 29.74
Options forfeited	7,850	$ 22.44	78,800	$ 18.59	3,895	$ 29.59
Options exercised	146,608	$ 5.03	195,244	$ 5.12	139,336	$ 9.77
Options outstanding, end of year	2,622,169	$ 19.61	2,173,034	$ 20.53	1,866,730	$ 16.29

The weighted average fair value of options granted whose exercise price was equal to the market price of the stock on the grant date was $12.97, $25.58 and $10.75 for the years ended December 31, 2001, 2000 and 1999, respectively. The weighted average fair value of options granted whose exercise price exceeded the market price of the stock on the grant date was $14.27, $28.05 and $12.04 for the years ended December 31, 2001, 2000 and 1999, respectively. The range of exercise prices for options outstanding and exercisable as of December 31, 2001 are as follows: 306,166 options from $1.63 to $13.38 and 1,727,303 options from $17.38 to $36.00.

The Company has adopted a Shareholder Protection Rights Agreement and declared a distribution of one right (the "Right") for each outstanding share of Company common stock, par value $0.20 per share (the "Common Stock"). Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Unit") of Series A Participating Preferred Stock, par value $1.00 per share (the "Preferred Stock"), at a purchase price of $18.00 per Unit, subject to adjustment. The Rights currently attach to the certificates representing shares of outstanding Company Common Stock, and no separate Rights certificates will be distributed. The Rights will separate from the Common Stock upon the earlier of ten business days (unless otherwise delayed by the Board) following the (i) public announcement that a person or group of affiliated or associated persons (the "Acquiring Person") has acquired, obtained the right to acquire, or otherwise obtained beneficial ownership of 15% or more of the then outstanding shares of Common Stock, or (ii) commencement of a tender offer or exchange offer that would result in an Acquiring Person beneficially owning 15% or more of the then outstanding shares of Common Stock. The Board of Directors may terminate the Rights without any payment to the holders thereof at any time prior to the close of business ten business days following announcement by the Company that a person has become an Acquiring Person. The Rights, which do not have voting power and are not entitled to dividends, expire on December 21, 2005. In the event of a merger, consolidation, statutory share exchange or other transaction in which shares of Common Stock are exchanged, each Unit of Preferred Stock will be entitled to receive the per share amount paid in respect of each share of Common Stock.

11. Financial Instruments

Credit Risk - The Company sells products to a wide variety of customers. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains an allowance for doubtful accounts at a level which management believes is sufficient to cover potential credit losses. As of December 31, 2001, concentrations of credit risk with respect to receivables are limited due to the wide variety of customers.

Fair Value of Financial Instruments - The book value of the Company's financial instruments approximates their fair value. Financial instruments include cash, accounts receivable, finance receivables, accounts payable, long- and short-term debt and one interest rate swap agreement. Excluding $80,000,000 of senior secured notes, the Company's short and long-term debt is floating rate debt and, accordingly, book value approximates

its fair value. The fair value of amounts outstanding under the senior secured note agreement are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements and were $78,996,000 at December 31, 2001.

Derivative Financial Instruments - The Company only uses derivatives for hedging purposes. During 2000 and 2001, the Company entered into interest-rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed rate bases, thus reducing the impact of interest rate charges on future income. On April 6, 2000, the Company's captive finance subsidiary, Astec Financial Services, Inc., entered into a swap agreement with a notional amount of $7,500,000 that is effective for five years. On January 2, 2001, the Company entered into a swap agreement in the notional amount of $40,000,000. This agreement expired on December 31, 2001. At December 31, 2001 the fair value of the $7,500,000 interest rate swap was $(713,070).

12. Operations by Industry Segment and Geographic Area

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

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

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

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

Underground Group - This segment consists of two operating units that design, manufacture and market auger boring machines, directional drills, fluid/mud systems, chain and wheel trenching equipment, rock saws, road miners and material processing equipment. The principal purchasers of these products are pipeline and utility contractors.

All Others - This category consists of the Company's other business units, including the parent company, Astec Industries, Inc., that do not meet the requirements for separate disclosure as an operating segment. Revenues in this category are derived primarily from operating leases owned by the Company's finance subsidiary.

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

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

Segment information for 2001

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

Segment information for 2000

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	$187,823,335	$190,931,429	$ 63,268,136	$ 75,748,060	$ 2,916,891	$520,687,851
Intersegment revenues	13,427,266	21,024,808	120,618	504,963	3,051,983	38,129,638
Interest expense	4,742	769,003	175,634	340,583	7,362,377	8,652,339
Depreciation and amortization	4,774,154	5,078,301	1,629,792	2,082,141	1,815.315	15,379,703
Segment profit (loss)	17,996,985	18,367,234	8,343,809	6,835,885	(25,515,926)	26,027,987
Segment assets	167,042,229	202,701,018	58,826,228	59,934,607	262,897,237	751,401,319
Capital expenditures	8,562,340	6,819,029	1,602,651	3,336,470	470,534	20,791,024

Segment information for 1999

	Asphalt Group	Aggregate and Mining Group	Mobile Asphalt Paving Group	Underground Group	All Others	Total
Revenues from external customers	$192,525,695	$155,199,535	$ 67,374,684	$ 31,510,153	$ 3,017,390	$449,627,457
Intersegment revenues	8,947,300	10,636,735		936,882	2,643,437	23,164,354
Interest expense	57,447	683,404	93,875	289,569	3,128,924	4,253,219
Depreciation and amortization	4,153,143	3,049,886	1,274,471	995,609	2,222,753	11,695,862
Segment profit (loss)	25,449,090	18,198,871	11,200,103	988,904	(25,299,553)	30,537,415
Segment assets	150,032,995	184,015,782	43,619,752	52,280,067	238,563,925	668,512,521
Capital expenditures	8,962,862	10,883,070	3,442,706	2,155,055	5,435,997	30,879,690

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

	Year Ended December 31,		
	2001	2000	1999
Sales:			
Total external sales for reportable segments	$ 452,685,220	$ 517,770,960	$ 446,610,067
Intersegment sales for reportable segments	33,894,934	35,077,655	20,520,917
Other sales	6,328,360	5,968,874	5,660,827
Elimination of intersegment sales	(37,069,350)	(38,129,638)	(23,164,354)
Total consolidated sales	$ 455,839,164	$ 520,687,851	$ 449,627,457
Profit:			
Total profit for reportable segments	$ 16,665,212	$ 51,543,913	$ 55,836,968
Other (loss)	(14,080,215)	(25,515,926)	(25,299,553)
Equity in (loss) income of joint venture	(241,922)	(195,781)	6,096
Minority interest in earnings of subsidiary	(123,878)	(8,328)	
Elimination of intersegment profit	(226,775)	457,208	1,168,767
Total consolidated net income	$1,992,422	$ 26,281,086	$ 31,712,278
Assets:			
Total assets for reportable segments	$ 482,860,165	$ 488,504,082	$ 429,948,596
Other assets	245,183,271	262,897,237	239,460,432
Elimination of intercompany profit in inventory and leased equipment	(53,481)	(246,280)	(1,241,297)
Elimination of intercompany receivables	(149,056,131)	(144,200,101)	(172,653,814)
Elimination of investment in subsidiaries	(143,943,282)	(141,254,918)	(118,643,805)
Other eliminations	(34,299,556)	(66,904,753)	(21,433,081)
Total consolidated assets	$ 400,690,986	$ 398,795,267	$ 355,437,031
Interest expense:			
Total interest expense for reportable segments	$ 1,033,277	$ 1,289,962	$ 1,124,295
Other interest expense	8,333,777	7,362,377	3,128,924
Total consolidated interest expense	$ 9,367,054	$ 8,652,339	$ 4,253,219
Depreciation and amortization:			
Total depreciation and amortization for reportable segments	$ 14,882,389	$ 13,564,388	$ 9,473,109
Other depreciation and amortization	2,163,183	1,815,315	2,222,753
Total consolidated depreciation and amortization	$17,045,572	$ 15,379,703	$ 11,695,862
Capital expenditures:			
Total capital expenditures for reportable segments	$7,689,626	$ 20,320,490	$ 25,443,693
Other capital expenditures	367,796	470,534	5,435,997
Total consolidated capital expenditures (excluding those for equipment leased to others)	$ 8,057,422	$ 20,791,024	$ 30,879,690

International sales by domestic subsidiaries by major geographic region were as follows:

	Year Ended December 31,		
	2001	2000	1999
Asia	$ 2,020,836	$ 1,589,937	$ 2,814,288
Southeast Asia	6,462,062	2,824,572	808,771
Europe	12,951,596	7,137,599	7,148,982
South America	6,536,419	2,984,187	4,280,998
Canada	13,356,316	14,950,621	12,694,606
Australia	1,642,519	6,598,660	962,743
Africa	23,855,351	8,044,463	1,434,304
Central America	20,602,844	15,557,104	9,995,037
Middle East	666,312	205,300	1,080,697
West Indies	2,398,950	3,018,152	4,365,563
Other	917,346	588,325	209,208
Total	$91,410,551	$63,498,920	$45,795,197

13. Finance Receivables

Finance receivables are receivables of Astec Financial Services, Inc. Contractual maturities of outstanding receivables at December 31, 2001 were:

Amounts Due In	Financing Leases	Notes	Total
2002	$ 6,992,478	$ 6,800,196	$13,792,674
2003	844,531	7,667,836	8,512,367
2004	302,264	1,405,512	1,707,776
2005	171,342	968,943	1,140,285
2006	182,024	809,583	991,607
Thereafter		2,198,555	2,198,555
Total	$ 8,492,639	$19,850,625	$28,343,264

Receivables may be paid prior to contractual maturity generally by payment of a prepayment penalty. At December 31, 2001, there were no impaired loans or leases. Recognition of income on finance receivables is suspended when management determines that collection of future income is not probable. Accrual is resumed if the receivable becomes contractually current and collection doubts are removed. Previously suspended income is recognized at that time.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Astec Industries, Inc.

We have audited the accompanying consolidated balance sheets of Astec Industries, Inc. and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astec Industries, Inc. and subsidiaries at December 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Chattanooga, Tennessee
February 14, 2002