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PARTICIPANTS

Dr. J. Don Brock-Astec Industries-Chairman and CEO
F. McKamy Hall-Astec-Vice President-CFO-Treasurer

Operator: Greetings, ladies and gentlemen, and welcome to the Astec Industries, third quarter results 2006 conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Steve Anderson, Director of Investor Relations of Astec Industries. Thank you Mr. Anderson, you may begin.

Steve Anderson-Astec Industries-Director of Investor Relations

Thank you Joe. Good morning and welcome to the Astec Industries conference call for the third quarter of 2006. As Joe mentioned, my name is Steve Anderson. I'm the Director of Investor Relations and Assistant Secretary for the Company. Also on today's call is Dr. J. Don Brock, our Chairman and Chief Executive Officer and Neal Ferry, Executive Vice President and McKamy Hall, Vice President and Chief Financial Officer. In just a moment, I'll turn the call over to McKamy to discuss and summarize our financial results, then to Don to cover our business operations and environments.

In the way of disclosures, I'll note, that our discussion this morning may contain forward-looking statements that relate the future performance of the Company. These statements are intended to qualify for the Safe Harbor liability, established by the Private Securities Litigation Reform Act. Any such statements are not guarantees of future performance, and are subject to certain risks, uncertainties, assumptions and other factors, some of which are beyond the Company's control. Some of those factors could influence our results, and are highlighted in today's financial news release and others are contained in our annual report,



and our quarterly and annual filings with the SEC. As usual, we urge you to familiarize yourself with those factors.

At this point, I'll turn the call over to McKamy, to summarize our financials.

F. McKamy Hall-Astec-Vice President-CFO-Treasurer

Thanks Steve, and good morning. We appreciate you joining us. We're very pleased to report on a very good third quarter. I hope each of you have a complete press release, with all attachments. The reconciliation sheet, which is the sheet following the financials, is a sheet reconciling net income to net income before unusual items for 2005, which is attached for your convenience. When we get down to the net income and the earnings per share line, we would like to reference that. So if you could have it available, that would be helpful.

Net sales are up \$22.4 million or 15%. International sales are up 102.1% or \$29.6 million, and part sales are up 12.9% or \$4.6 million. Attached to the financials is a revenue by segment statement. The Asphalt segment revenues are up 28.9% compared to the third quarter of last year. Underground's are up 23.7%. Aggregate and Mining are up 9.2% and Mobile Asphalt Paving are up 3.6%. So, all segments are up in revenues.

At the gross margin line, we are at 23.9%, that's up 160 basis points over third quarter last year. Also, on your attached segment information, gross margin for the Underground Group is at 25.4%. Asphalt Group is 24.8%. Aggregate and Mining is at 24.2% and Mobile Asphalt Paving is 20.7%. SG&A is at \$25.3 million or 14.8% of sales, compared to 23.4 or 15.7% of sales for the prior year.

Let's try to discuss Grapevine and how that fits into the picture. On the reconciliation page, if you will look at that, you will find that the gain on sales Grapevine profited last year was \$4,736,000. There was also a real estate impairment charge of \$726,000 and a charge-off of prepaid loan fees of \$319,000, which gets the net income before unusual items down from \$10,059,000 to \$6,368,000. The \$10,026,000 compared to the \$6,368,000 results in a 57.4% increase. That is what we consider to be the operational income of the Company, and that's why we provided the reconciliation sheet last year to point it out, and we're providing it again this year to make sure that we can show you the net income excluding unusual items, so that, that gives you a good comparison. That same comparison at the earnings per share line gives you a \$0.46 per share earnings per share compared to \$0.30. If you go on down the reconciliation sheet, we've taken the \$0.47 last year and taken out the unusual items to get down to the \$0.30 per share. If you compare the \$0.46 to the \$0.30, we're up \$0.16 per share for the quarter. I'm sure we'll have some



questions about that later, and I'll be more than happy to answer any question relating to that.

We also next look at backlog. Backlog is up 73.4%. That is the highest third quarter backlog in our history. Within that backlog, domestic backlog is up 54.6% and international backlog is up 140%. On your segment backlog at the bottom of the attached sheet, you'll find that underground is up 259.1%, and that certainly has been impacted by the large machines, and I'm sure Don will have comments and we can add other comments later, relating to that. Mobile Asphalt Paving was up 104.2%. The Asphalt Group is 82.7%. Aggregate and Mining is 44.7%, and I'm sure Don will comment also that asphalt today, has had a lot of positive results since ____ (audio cuts out) takes place at the end of the quarter.

In terms of the balance sheet, we have a strong balance sheet. Our receivables are up 13.9% on a volume increase of 15%. Our days outstanding are at 36.9 days versus 37.1 days last year. Our inventory is up 16.7% on a sales increase of 15%. Our turns are 3.48 turns versus 3.54 last year. We basically have no debt.

Our capital expenditures for the year are \$23.1 billion. We have a budget of \$28.4 million for this year. Our depreciation is \$8.5 million through the third quarter, and our budget for the year, to give you a comparison number, is \$12.4 million. Normally we will provide a cash flow with the 10-Q following. I'll be glad to answer any questions after Don's comments are made.

This concludes my remarks on the financials at this point.

Steve Anderson-Astec Industries-Investor Relations

Thank you McKamy, Don will now discuss the Astec operations for the third quarter of 2006.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Thank you Steve. As you can see, we feel like we had a very good third quarter. If you exclude the unusual items from last year, we were up about 57%. All segments were profitable. Revenues were up 15%. Our backlog is up 73%. I might add it's increased significantly since the end of the quarter, particularly in the asphalt segment of the business. Our parts sales continue to grow, and are up 16% year-to-date. Our gross margin as McKamy mentioned, is up 160 basis points over last year's third quarter and up 210 basis points year-to-date.



Our new coal burner for asphalt plants started in the second quarter and is performing flawlessly, in my opinion. We've been very pleased with the results of that. We have received orders for 2 more of the coal burners to go on asphalt plants, and are developing additional sizes of those, for the various sizes of asphalt plants.

The new Roadtec stabilizer is performing well. We're also beginning to sell our directional drill in the oil and gas filling market, and are kind of excited about the prospect of using the directional drills in that market. We have moved into three of our new facilities that we've added, and will move into the South Dakota facility during the fourth quarter when it's finished.

Looking forward to the fourth quarter, the completion of the sale of APAC by Ashland to Old Castle along with Old Castle's sale of a few of the divisions that they acquired, should lead to the stabilization of the market, particularly in the southeastern United States. It has, and will continue to improve our sales outlook in these areas as customers proceed to upgrade some their equipment.

Our backlogs, as we mentioned earlier, are very strong. We continue to focus on our margins, the rate of price increase in components at least is not exceeding our price increases, and we will see our prices increases start to take effect in the fourth quarter and first quarter, as we go forward. All prices have moderated somewhat, and asphalt profit and prices are continuing to soften somewhat, which is very helpful to our customer.

States seem to be more amenable to looking at higher percentages of recycle, if it's processed properly. We have the best equipment for milling, crushing, screening, and reprocessing recycle back into the mix. We think that will bode well.

Our international sales continue to grow, particularly in the Aggregate and Underground groups. Federal highway spending next year will be up approximately 9%, and we see many states increasing their spending, although, that's not universal all the way across the country, but there are more increases than decreases. As we look forward on, we believe we will meet or perhaps exceed analyst expectations in the seasonally weak fourth quarter. How good the quarter will end up, is very dependent on our ability to get our customers to take shipment between Thanksgiving and the end of the year. Fourth quarter is always weak, as you know. We have the backlog and can produce the equipment; the final number will depend on the ability to ship.

At this point, we feel a lot better than I did at the end of the second quarter. Looking forward to '07, we expect to grow organically about 10%. We continue to look at various acquisition opportunities as they come available. We'll continue to do that, as we find bolt-on acquisitions that make sense.



We'd be happy to answer any questions that anyone has at this time.

Operator:

Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press *1, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the * keys.

Our first question is from Arnie Ursaner, from CJS Securities. Please proceed with your question.

<Q>: Hi good morning. I want to try to focus a little bit more on the backlog, which is again unprecedented. Normally your clients tend to not order a lot of equipment at this time of the year. Perhaps you could expand a little bit more Don, on why you're seeing this dramatic improvement in backlog? Typically again, customers, unless they are concerned about availability, would normally wait until the January/February period to place orders. What do you see happening that is causing this pretty significant change?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Arnie, I guess just to be frank with you, we're a little surprised at the magnitude of it. The asphalt division has got a huge backlog, and to be honest, it's bigger than it looks like, because we have had a tremendous amount of orders roll in the last 3 weeks. I think there are 2 or 3 drivers of this. I think there is some optimism due to the softening of the asphalt prices. Also, the APAC/Old Castle acquisition is really I think, they have sold off about 3 divisions of APAC. People that have bought these divisions are upgrading equipment. That's part of it. I would say that there generally is still optimism for the amount of work that's out there. California is letting huge amounts of jobs. We have more orders in California than we have had in 5 years. International business has been unusually strong, you can see from the numbers. It's been just a magnitude of different things. Particularly the strongest, I guess, is in the Asphalt and the Underground groups. The Underground Group is driven a lot by energy costs and big pipeline projects around the world. So we've gotten a lot of orders for large trenchers in the last few months. It's a combination of a number of things, but the softening of oil prices, sure helps a heck of a lot.

<Q>: To follow up a little bit more on this, in Q2 you had roughly \$10-11 million in back log that was due to timing of shipments. I know some analysts had higher revenue numbers.



Were there any deferrals or timing issues that impacted the backlog this quarter?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Yeah, I would guess that just my estimation of it, it was probably \$8-9 million. We had one large crushing plant that was \$5 million that was completed, but we couldn't get the paperwork and everything through. We had a number of international shipments. It was not as big as the second quarter, but it's probably within \$2 million of that. It seems like with the paranoia of Sarbanes-Oxley on revenue recognition, this is going to be an on-going thing I guess as we go forward. That's why in the fourth quarter, we're going to have a good fourth quarter, but how good it is, is going to be dependent on getting it out, and we've got to ship it in order to recognize it.

<Q>: Don, you mentioned 2 or 3 times the backlog, if you were able to comment on it, would be much better in asphalt. Can you give us a sense for what it might be? Also, remind us or give us a sense of expected timing on some of these shipments?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Some of them stretch all the way out into March or April of next year. We have the first quarter full on asphalt equipment. It stretches out. Frankly, I wish we could ship a little more in the fourth quarter, but we're going to be loaded in the first quarter.

<Q>: What sort of incremental backlog have you seen in the last few weeks? Could you answer that?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

I don't whether you would say incremental, but probably \$50 million above what you see on the backlog in the asphalt group alone. We've seen, particularly on asphalt equipment, it's not all new plants; it's a lot of components, a lot of people changing to our double barrels, to run more recycle. I guess we've probably got a large number of orders, probably 10-15 orders for partial plants, to increase the amount of recycle. I'm excited about the ... I gave a talk at the mid-year NAPA Convention on how to increase recycle. I've been asked to speak between 13-15 times between now and March of next year on increasing recycle. I spoke last week out in Kansas for their DOT, and they immediately agreed to change about 3 jobs to increase the amount of recycle. We see that as extremely positive, and not only for us, but for the whole industry.

<Q>: Thank you very much.



Operator:

Our next question is from Jack Kasprzak, with BB&T Capital Markets. Please proceed with your question.

<Q>: Hi thanks, good morning everyone. There are a couple of things I just wanted to clarify; the line was breaking up a little while you guys were speaking. McKamy, the international backlog, can you give us that number again please?

F. McKamy Hall-Astec-Vice President-CFO-Treasurer

The international backlog is up 140.5%, and it's up \$22.3 million.

<Q>: Okay. Cap ex for 2006?

F. McKamy Hall-Astec-Vice President-CFO-Treasurer

It is \$28.4 million. We have done \$23 million of that, Jack.

<Q>: Okay. The SG&A, which you mentioned was \$25.3 million, that's down from Q2 in dollars, a couple of million bucks, so I'm just trying to get an idea of what you guys think the run rate there is? Should it be closer now to a \$25 million level, or why would it have been down from the June quarter?

F. McKamy Hall-Astec-Vice President-CFO-Treasurer

I think that is a very difficult question to answer Jack. There are so many things that change now related to volume, it's going to vary with the SOX expense, and it's going to vary with the selling expense. Basically, our salary and benefit and selling expense and commissions are all up. Accounting fees are up some. I think it's going to run.. You know Steve and I were talking about this the morning, and I think our goal has been to run at 14. I think we're probably somewhere between 14 and 15 with some of these additional expenses that we have to live with now.

<Q>: Yeah, so 14-15% somewhere in that range as a percent of sales for the full year now, is more or less the goal?

F. McKamy Hall-Astec-Vice President-CFO-Treasurer

I think. Don, do you want to add to that?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Yeah, Jack, I'd add a couple of things. In a couple of our segments, a couple of companies, we've built their sales forces up, and they're at the number of people are at this point out-running the sales that we've gotten. Again, that's in anticipation as we continue to grow the business. We probably are out in front a little bit of sales on it. The other thing, the extra expense related to Sarbanes-Oxley is; we have had some of that, but that should be leveling. I guess if there is anything that is up, we're probably, particularly in the sales and marketing area we may be a little ahead of the volume that we're generating. We did that intentionally, particularly in the Underground operations, because we're over volumes there. And particularly in our international and the Aggregate side, we've built up a pretty good international sales force there.

<Q>: Okay. That is very helpful. The last, Arnie's question about backlog, you guys went through that, but I guess I just was curious. I mean can we assume that the price of oil having come down, is that really what has sparked in such a short period of time, you know this, for lack of a better word, surge in orders, sharp increase in the backlog because it is pretty impressive. I know you mentioned Terex and APAC Don, and that has sort of been underway, but at the margin, is the price of oil coming down really what has made everybody turn around and say hey, I feel better about the situation. I'm going to spend some more money?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

I think that's a big driver of it Jack, but I would have to say there is a lot of it from Matthew's in Georgia, which one of our big customers bought the Georgia operations of APAC, and the South Carolina and Eastern North Carolina operations are being sold again to our customers. A lot of these guys have got sufficient funds to upgrade, and Old Castle particularly will be putting a lot of capital in to these operations. Frankly, part of it is the upgrading of the old APAC operation that has come in. I say the rest of it would be to the optimism. California, truthfully, we've sold very little in California in the last 4-5 years, and all of the sudden they've got a huge program. We've got a couple of very large plants going out there, and again the third aspect is international. We've got a couple of plants going to Australia, one going to Russia, one going to China. There has been quite a bit of that, that's come in. So, it is a combination of all of them.

<Q>: Okay great, thanks a lot.

Operator:

Our next question is from Rich Wesolowski with Sidoti and Company.

<Q>: Thank you, good morning. It looks like you guys are on target for the 200 basis points to gross margin this year, can you talk a little bit qualitatively about the avenues for improving upon that number next year, and perhaps give a numerical estimate of a range you think you can get to?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Well we would like to see it 25% gross margin or better. It's getting harder to get, but a lot of this is dependent on how much, if we get any softening of steel prices. We have created a culture of continuing effort with our focus group to reducing costs, and frankly some of the companies, particularly our American Auger's operation, has done a fantastic job in improving their margins on equipment, through really focusing on product, and how do we take costs out of them without really affecting the function of them. Some of the other companies have been later in really embracing this approach, but I'd say right now, that we are just finishing our last reviews for the quarter of all of the companies. I'm excited that they have all seem to now be taking this on as a challenge. I think that we've got opportunity to get another 100-150 basis points out of our cost.

<Q>: Okay, that's helpful thanks. Can you speak about the pricing in your various products versus the component cost increases that we've been talking about in prior calls?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Yeah, the thing that is extremely difficult for us to keep up with, and one of the things that we are requiring all the companies to do, is to do what we call cost roll-ups, on a monthly basis. We see price increases anything related to copper, we've seen electric motors go up 12%. Copper as you know, has about tripled. The problem we have is, it goes up 12%, what percentage of electric motors are you using on a piece of equipment? We have to watch what effect that has in total in all of our equipment. In general, I think we're seeing an effect in our cost from 2-6%, depending on what the product is. We are trying to increase our prices along with that, but I would say in general, we're probably seeing as much as a 5% price increase as we go forward.

<Q>: Okay, thank you.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Thank you.

Operator:

Our next question is from Scott Mackey, with Robert W. Baird. Please proceed with your question.

<Q>: Good morning gentlemen. I just want to clarify the answer to the last question. You're talking about your costs going up 5%, generally speaking, on the products?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

That's what we're seeing on the high end of it Scott.

<Q>: Okay, then if I understand correctly then with the price increases that you have in the pipe, then you would expect those price increases to exceed that 5% cost increase that you're incurring?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Scott, probably we expect to more equal it. We put them in, and we're usually again with backlog, you're generally 4-6 months behind them. So while we're trying to get a little ahead of the curve, probably on average, we're about equal to what they are. I guess the big question is, do price increases moderate on our supplier? We don't know the answer to that question.

<Q>: I see, so if I understand correctly then, you're now to a plus and you've got more price in the backlog, so when prices stabilize then the price increase will off-set, or more than off-set, the cost increases you're incurring.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

That's what we believe at this point. Steel is a good question, you know, I think the steel companies are being very, very careful to try to adjust their capacity, so there is not a softening in the price, and that the real opportunity there comes from how much imported steel starts to flow into the country. Then you may see a softening. We have not seen the softening that we expected in steel prices.

<Q>: I see. You talked about, and I believe I heard correctly, expecting something in the ballpark of 10% organic growth in 2007?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

That's correct.

<Q>: I was just wondering if maybe you could break that down by segment? Or at least sort of rank by segment, where you think the greatest growth opportunities are?

Dr. J. Don Brock-Astec Industries-Chairman and CEO



I think it's fairly level across the Company. I think there is potentially more growth in the Underground, because we have less market share in that part of it. There is also a tremendous amount of energy around the world and more large pipeline projects. We still watch and wait for the Alaskan line and there's another one in Canada that's a big line that we're watching. Those would all be real bonuses, but there are a lot of lines going on in Russia and the Middle East. Different places, so their potential probably for increase is better than the other areas. The Asphalt side of the business, as I have said, we've had a tremendous in-rush of orders there, and that seems to be particularly in the plant side of business, seems to be very strong at this point. I would have to say Asphalt and Underground are the 2 greatest opportunities right now.

<Q>: Okay. As I look at the revenue in the quarter, it looks like the increase in international revenue is more than the increase in.... Well essentially it implies a year-over-year decline in domestic revenue. Am I getting my math correct?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Yeah, we're down slightly domestically. Typically third quarter domestically is slow and international is higher, because again we're in the middle of the season in the northern hemisphere, you're in the middle of the winter in the southern hemisphere. People buy and put in the international equipment in the southern part of the hemisphere more than in the summer months, what would be our summer months. They'll be working during our winter months.

<Q>: Then if I understand correctly, the increase in the backlog though, sounds like it's obviously that increase in the international side, but is also improved significantly domestically.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Yeah, most of the increase in the backlog that's above what we're presenting here, is domestic.

<Q>: Then one last question. I just want to congratulate you, that's as far back as our quarterly model goes the highest operating margin the Underground. Would you expect the Underground segment to generate an operating profit in the fourth quarter?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Yes, I expect them to be. They've done a great job particularly on our directional drills and taking cost out of them. And what's exciting, I mean, you can't even see any difference in

the product other than it looks better. And they've done a . . . Well, the rest of the story is additional volume certainly helps too. But the margins there have improved significantly and they've really been one of the best companies as far as embracing the focus group approach and are continuing to work on that. We're also very excited there in the possibility we have for the first one of our rigs. One of our customers has used one of our rigs for drilling oil and gas and we've got another one sold in that field. And I think there's a lot of potential for that where they will go down for shallow oil and shallow gas, but then turn horizontal. A fellow went down 275 feet and turned horizontal for 2200 feet. The amount of gas he's getting out is about 10 times what you would normally get out of a well. So, there's a lot of potential it looks like for using our rigs for another application.

<Q>: And what exactly, what product is he using when he's doing this?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

It's one of our big directional drills.

<Q>: How much does it typically sell for?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

A million bucks.

<Q>: Alright. Thanks a lot. I appreciate it.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Thank you Scott.

Operator:

Our next question is from Alex Mitchell with Scopus Asset Management.

<Q>: Good morning.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Good morning.

<Q>: I wanted to ask just APAC of whether you have a sense of to . . . whether they had been under investing, and how old is their fleet? How much upgrade could be coming from the new owners?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Well they had approximately 250 asphalt plants, and they and Old Castle were the two biggest in the business. And Ashland generally gave them enough money to buy maybe two or three asphalt plants a year. The last two or three years they've not replaced a lot. Particularly the last 18 months to 2 years, they have been, I guess their plan was to divest of it and have not really put a lot of capital back in it. So there is a real opportunity to see some upgrades in that over the next few years. Old Castle, I guess if you look at both of their budgets, probably spends 3 to 4 times on capital over what I've seen for APAC. Old Castle has been good for reinvesting in their business.

<Q>: And finally; when oil prices were going up in the last couple of quarters, were you seeing cancellations related to that?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

No, we didn't see cancellations. But what you saw Alex is . . . when prices go up and they've got 6 contracts with no escalators in them, the thing that does happen is it just takes the profit right out of the job for them. If they're not making enough money, they don't spend on capital. We did see in a number of cases like in Florida, with _____(audio cuts out) jobs and wait. And we have seen a lot of cases where states will have estimates of the cost of a job and then if the bid price way exceeds the estimate, they won't let the job. And we did see quite a bit of that occurring. With the softening of asphalt prices, you'll see less of that occurring and you'll probably see counties start again to let more work that they have delayed.

<Q>: Okay. Thank you very much.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Um huh.

Operator:

The next question is from John Emrich with Ironworks Capital.

<Q>: Thanks. I missed the cap ex number for, I guess, you guys have given for the year and year-to-date. I guess I'm just trying to get the Q4 number. Q4 Cap Ex.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Okay. And for the year, we're looking at around 28-29 million and we've spent 23, I think that's what that is.

<Q>: Gotcha. And next year, a similar type number or do you have large projects you need to step up on?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

We really are not there yet. I anticipate it to be slightly below that. Well, it is equal to what we are at this year. We have no brick-and-mortar projects for next year. We do have a lot of machinery that we do need to add or replace.

<Q>: Okay. And lastly, can you clarify the comment about another 100-150 basis points that you want to take out of costs? That's a goal over what period of time? And where do you think it comes from?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

I guess that's a goal over the next 18 months. Where it will come from is basically as we do better jobs in our purchasing by grouping together all of the companies for volume purchasing. Secondly, in our fabrication techniques, some of this . . . quite a bit of this new equipment should take cost out of it and that's why we're buying it. But there's a lot of change in fabrication equipment as we tend to continue to modernize that. And then the third area is just the concentration on our initiative to count the pieces and take pieces out of the product to do a better job in designing and taking cost out of the product.

<Q>: So some time, March, June quarter of 08? Not only will you bring your progression, but by that time our run rate of operating margins you think is 100 basis points better than it is today?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

I think it is assuming that our volume continues to grow too. I mean you get a downturn in volume and things get tough to hang on to that.

<Q>: Understood.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

But assuming we grow at 10% next year, yes, your assumption is correct.

<Q>: Okay. Thank you.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Um huh.

Operator:

The next question is from John Riley with ACK Partners. Please proceed with your

question.

<Q>: Good quarter. Good morning gentlemen.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Thank you John.

<Q>: A question relating to the Old Castle and their rate of under investment they've had for a number of years. While I know it's tough, some precedence is needed. You have Q1 booked solid right now. What could the duration of their demand be for asphalt plants?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Let me make sure we understand. It was not Old Castle that was under investing, it was Ashland that was under investing in APAC. Old Castle is pretty deliberate in theirs. I don't know that I can give you a quantitative answer on that. But historically, ten years ago Ashland was buying from 5 to 10 plants a year. When Charlie Potts became President of APAC, I think they had probably 10 or 12 continuous drum-type plants. By the time he left, they had really over 100-120 of them. They had a huge number of hot storage bins. So there was a lot of modernization in the 90's that APAC and Ashland went through. In the last few years, they have really slowed that down. I guess, you know, it's not uncommon. You can vary expenditures as you need to. But they really, the last 18 months, you know, it was pretty obvious that they intended to divest of it and they've pretty well shut down most capital. I know last year, in September - their year ended in September. And they usually.... we got a lot of orders in the fourth quarter, our fiscal fourth quarter from them, and they just practically ordered nothing. They've pretty well just shut them down. So there's a pretty good catch-up that will have to be done. I think Old Castle has got to see what they've got, and work through it. Of the orders we've got right now, there's very few of them that really came from the APAC side. Most of them are from existing Old Castle divisions as far as those two companies are concerned. But we have got quite a few orders from the people who bought the divisions that Old Castle has spun off.

<Q>: Got it. And it just seems to me, given the timing of the year, and such a strong outlook that you have in early 2007. What are your plans for possibly expanding capacity, or getting a more favorable pricing environment for the segment?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Well John, we've got the ability to work 7 days a week and gear it up. And that's what we'll do. We don't think we need any more bricks-and-mortar in these companies right now. We will replace some equipment and some machinery, but as far as expanding square footage, we don't need to do that.

<Q>: That's great. And then one last question. You mentioned the acquisition environment. Is it more favorable now than it was six months ago, given the kind of the correction and equity prices in the segment? And where do you . . . do you think that you have the ability to make acquisitions in the back half of this year and in 2007?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Well there's a . . . we've done more looking than we have buying, obviously. Some of the prices are also off right now. But there are some that . . . we're seriously talking to a couple that would be, I think, in a reasonable range that we can make work. And we'll have more to say about that later.

<Q>: And have you looked at the opportunity for stock buybacks versus acquisitions?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

We've tried to weigh that. Our Board had a special meeting just for that question. And right now they said, let's go through with what acquisitions can be made. They'd rather see us grow the company with some additional acquisitions first. If we strike out on that, well then we'll look at stock buybacks.

<Q>: Great. And then just one last question related to your organic growth. The first time I've ever really heard you forecast for 2007. To quantify, are you talking about unit growth or unit and pricing on a revenue growth?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

John, we're talking about unit and pricing. We think we can organically grow over the next 5 years, 10% a year. During that period, if we don't have 15-20% growth, we are going to have to be flat. I mean there's going to be down year, somewhere in there. But I think, compounded I think you can count on us doing about a 10% growth. And our goal is to be twice where we were the last years five years out. And that being about two-thirds coming from organic and one-third by acquisition. And to do that, we've got to grow at 10% a year.

<Q>: That sounds great. Thank you very much guys.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Thank you.

Operator:

The next question is from Arnie Ursaner with CJS Securities. Please state your question.

<Q>: Hi. One quick question regarding the backlog again. Do you sense or can you

perhaps even attempt to quantify customers placing orders to try to beat price increases which you're obviously talking about?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

There's a little of that. There's a little of that, Arnie. There's no question about it. Some of it is all just make sure they get it in for next year, you know, ready to go to work next year. They've got big projects to work on and so it is influenced a little by that. And if I had to put a number on it, probably one-third of it is driven by that.

<Q>: Got it. You were going through a pretty significant capital spending plan this year, you know, almost double your normal maintenance cap ex. You had some facility additions that were sizeable at Roadtec, KPI and in Astec Mobile Screens. Are these pretty much up and running and can you perhaps quantify if it had any impact on margin last quarter? And several of these are obviously driven not just by physical capacity additions, but by improving productivity and moving to continuous flow? As these ramp up, what sort of impact could this have on margin going forward?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

I think that's the part of the estimate I was giving of 100-150 basis points. At Roadtec, if they did anything, they hurt the margins in the third quarter. Because they're moving, and they're still not totally moved as we speak. They've moved parts out of the old building but they're rebuilding the old building now and moving the milling machines over into that area. So they're doing that. At Astec Mobile Screens, they were moving at the end of the quarter, so they are in their building now and pretty well ramped up. But I'd have to say that basically it was more harmful in the third quarter than helpful. Going forward, it should be helpful. I think you'll see a good difference. At Kolberg-Pioneer, they will be moving during the fourth quarter. The way they're moving in, it will hurt them; but I wouldn't think it will hurt them that much.

<Q>: Going back to your sales force, you had indicated last quarter that to avoid any sales disruption, as you had expanded your sales force you had some overlap to make sure that, in fact, this process went smoothly. Is that still continuing or was there some margin impact from that in Q3?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Oh I don't think there was any margin impact. Where it impacts is in your SG&A. You know, you add salesmen you've got to train them. And some of these companies are like Underground, nearly being a start-up. We had the gamble there of putting a good sales force into place. We had to train them. We had to treat them like a football team. You got

to get them working together. And you're really adding them ahead of what the sales are, you know. And I think we're beginning to see those guys perform at this point.

<Q>: And again, I know you are not finalized with '07 cap ex budgets, but normal maintenance still runs something in the 12-14 and I think you clearly indicated you don't have any major facility expansions plan. Is that correct?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

That's correct. But we're looking at some, a lot of new machinery. But it will be less than this year is all I can tell you at this point.

<Q>: Okay. Thank you.

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Thank you Arnie.

Operator:

The next question is from Jim Schwartz with Harvey Partners. Please state your question.

<Q>: Hey Don. In the Underground, you surprised me on the revenue and gross and operating margins. Could you talk about the drivers in the Underground Group and kind of what you're seeing there for 2007?

Dr. J. Don Brock-Astec Industries-Chairman and CEO

Again our optimism with that is in the big machines. A lot of international pipeline abroad is going in; some domestic pipeline projects. You know, again oil and gas, there's a lot of gas here in the U.S. But the oil lines, most of your oil is in remote areas. The easy-to-get oil has been gotten and a lot of it is in very remote areas and you've got to have big lines to get it from there to where it needs to go. And so our optimism there is in the big machines.

<Q>: Thanks guys.

Operator:

I'm showing no further questions in queue. Do you have any closing comments?

Steve Anderon-Astec Industries-Director of Investor Relations

Thank you Joe. We appreciate your participation on our third quarter conference call and thank you for your interest in Astec. As our news release indicates, today's conference call has been recorded. A replay of the conference call will be available through October 30th,

2006. An archived webcast will be available for 90 days. We'll have a transcript available under the Investor Relations section of our website within the next 5 business days. And all of that information is contained in the news release that went out earlier today. And if there are no further questions, we'll complete our call. Thanks.

Operator:

Thank you. This concludes today's teleconference. Thank you for your participation.

