OM GROUP INC
Form 10-Q
May 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

Commission file number 001-12515
OM GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**52-1736882**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
127 Public Square **1500 Key Tower** **Cleveland, Ohio**	**44114-1221**
(Address of principal executive offices)	(Zip Code)

216-781-0083
Registrant s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Act). Yes o No þ

As of April 30, 2009 there were 30,564,834 shares of Common Stock, par value $.01 per share, outstanding.

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Part I FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements

OM Group, Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)	**March 31, 2009**	December 31, 2008
ASSETS:		
Current assets		
Cash and cash equivalents	**$ 272,372**	$ 244,785
Accounts receivable, less allowances	**105,557**	130,217
Inventories	**276,066**	306,128
Refundable and prepaid income taxes	**47,906**	55,059
Other current assets	**41,525**	59,227
Total current assets	**743,426**	795,416
Property, plant and equipment, net	**238,560**	245,202
Goodwill	**262,214**	268,677
Intangible assets	**84,745**	84,824
Notes receivable from joint venture partner, less allowance	**13,915**	13,915
Other non-current assets	**26,106**	26,393
Total assets	**$ 1,368,966**	$ 1,434,427
LIABILITIES:		
Current liabilities		
Current portion of long-term debt	**$ 75**	$ 80
Accounts payable	**61,530**	89,470
Accrued income taxes	**11,795**	17,677
Accrued employee costs	**19,663**	31,168
Other current liabilities	**20,709**	21,074
Total current liabilities	**113,772**	159,469
Long-term debt	**25,983**	26,064
Deferred income taxes	**28,337**	26,764
Other non-current liabilities	**43,868**	44,052
Total liabilities	**211,960**	256,349
EQUITY:		
OM Group, Inc. stockholders equity:		
Preferred stock, $.01 par value:		
Authorized 2,000,000 shares, no shares issued or outstanding		
Common stock, $.01 par value:		

Authorized 90,000,000 shares; 30,407,253 shares issued in 2009 and 30,317,403 shares issued 2008	**304**	303
Capital in excess of par value	**564,734**	563,454
Retained earnings	**594,088**	602,365
Treasury stock (160,982 in 2009 and 136,328 shares in 2008, at cost)	**(5,862)**	(5,490)
Accumulated other comprehensive loss	**(40,137)**	(29,983)
Total OM Group, Inc. stockholders equity	**1,113,127**	1,130,649
Noncontrolling interest	**43,879**	47,429
Total equity	**1,157,006**	1,178,078
Total liabilities and equity	**$ 1,368,966**	$ 1,434,427

See accompanying notes to unaudited condensed consolidated financial statements.

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OM Group, Inc. and Subsidiaries
Unaudited Condensed Statements of Consolidated Operations

(In thousands, except per share data)	Three Months Ended March 31, 2009	2008
Net sales	**$ 191,706**	$ 480,795
Cost of products sold	**165,091**	344,129
Gross profit	**26,615**	136,666
Selling, general and administrative expenses	**34,858**	42,032
Goodwill impairment, net	**2,629**	
Operating profit (loss)	**(10,872)**	94,634
Other income (expense):		
Interest expense	**(296)**	(360)
Interest income	**297**	466
Foreign exchange gain	**1,081**	646
Other income (expense), net	**(50)**	90
	1,032	842
Income (loss) from continuing operations before income tax expense	**(9,840)**	95,476
Income tax expense	**(2,249)**	(27,145)
Income (loss) from continuing operations, net of tax	**(12,089)**	68,331
Income (loss) from discontinued operations, net of tax	**264**	(369)
Consolidated net income (loss)	**(11,825)**	67,962
Net (income) loss attributable to the noncontrolling interest	**3,548**	(12,742)
Net income (loss) attributable to OM Group, Inc.	**$ (8,277)**	$ 55,220
Earnings per common share basic:		
Income (loss) from continuing operations attributible to OM Group, Inc. common shareholders	**$ (0.28)**	$ 1.85
Income (loss) from discontinued operations attributible to OM Group, Inc. common shareholders	**0.01**	(0.01)
Net income (loss) attributable to OM Group, Inc. common shareholders	**$ (0.27)**	$ 1.84
Earnings per common share assuming dilution:		
Income (loss) from continuing operations attributible to OM Group, Inc. common shareholders	**$ (0.28)**	$ 1.82
Income (loss) from discontinued operations attributible to OM Group, Inc. common shareholders	**0.01**	(0.01)
Net income (loss) attributable to OM Group, Inc. common shareholders	**$ (0.27)**	$ 1.81

Weighted average shares outstanding				
Basic		**30,187**		30,074
Assuming dilution		**30,187**		30,460
Amounts attributable to OM Group, Inc. common shareholders:				
Income (loss) from continuing operations, net of tax	**$**	**(8,541)**	$	55,589
Income (loss) from discontinued operations, net of tax		**264**		(369)
Net income (loss)	**$**	**(8,277)**	$	55,220

See accompanying notes to unaudited condensed consolidated financial statements.

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OM Group, Inc. and Subsidiaries
Unaudited Statements of Consolidated Comprehensive Income (Loss)

	Three Months Ended March 31	
(In thousands)	**2009**	2008
Consolidated net income (loss)	**$ (11,825)**	$ 67,962
Foreign currency translation adjustments	**(10,623)**	9,381
Reclassification of hedging activities into earnings, net of tax	**(42)**	159
Unrealized gain (loss) on cash flow hedges, net of tax	**511**	(492)
Net change in accumulated other comprehensive income (loss)	**(10,154)**	9,048
Comprehensive income (loss)	**(21,979)**	77,010
Comprehensive (income) loss attributable to noncontrolling interest	**3,550**	(12,744)
Comprehensive income (loss) attributable to OM Group, Inc.	**$ (18,429)**	$ 64,266

See accompanying notes to unaudited condensed consolidated financial statements.

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OM Group, Inc. and Subsidiaries
Unaudited Condensed Statements of Consolidated Cash Flows

	Three Months Ended March 31,	
(In thousands)	**2009**	2008
Operating activities		
Consolidated net income (loss)	**$ (11,825)**	$ 67,962
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used for) operating activities:		
(Income) loss from discontinued operations	**(264)**	369
Depreciation and amortization	**13,290**	13,365
Share-based compensation expense	**1,700**	2,231
Tax deficiency (excess tax benefit) from exercise/vesting of share awards	**420**	(23)
Foreign exchange gain	**(1,081)**	(646)
Q1 2009 Goodwill impairment charge	**6,768**	
Q4 2008 Goodwill impairment charge adjustment	**(4,139)**	
Unrealized gain on cobalt forward purchase contracts		(5,782)
Interest income received from consolidated joint venture partner		3,776
Other non-cash items	**3,972**	(2,753)
Changes in operating assets and liabilities		
Accounts receivable	**24,930**	(59,656)
Inventories	**30,062**	(86,921)
Accounts payable	**(27,939)**	33,080
Other, net	**712**	(18,652)
Net cash provided by (used for) operating activities	**36,606**	(53,650)
Investing activities		
Expenditures for property, plant and equipment	**(5,590)**	(6,725)
Proceeds from loans to consolidated joint venture partner		4,514
Acquisitions		(3,375)
Expenditures for software	**(663)**	(601)
Net cash used for investing activities	**(6,253)**	(6,187)
Financing activities		
Payments of revolving line of credit and long-term debt	**(20)**	(23,046)
Borrowings from revolving line of credit		70,000
Distributions to joint venture partners		(14,934)
Payment related to surrendered shares	**(372)**	
Proceeds from exercise of stock options		818
(Tax deficiency) excess tax benefit from exercise/vesting of share awards	**(420)**	23
Net cash provided by (used for) financing activities	**(812)**	32,861
Effect of exchange rate changes on cash	**(1,954)**	1,679
Cash and cash equivalents		

Increase (decrease) in cash and cash equivalents	**27,587**	(25,297)
Balance at the beginning of the period	**244,785**	100,187
Balance at the end of the period	**$ 272,372**	$ 74,890

See accompanying notes to unaudited condensed consolidated financial statements

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OM Group, Inc. and Subsidiaries
Unaudited Condensed Statements of Consolidated Stockholders Equity

(In thousands)	Three Months Ended March 31, 2009	2008
Common Stock Shares Outstanding, net of Treasury Shares		
Beginning balance	**30,181**	30,061
Shares issued under share-based compensation plans	**65**	21
	30,246	30,082
Common Stock Dollars		
Beginning balance	**$ 303**	$ 301
Shares issued under share-based compensation plans	**1**	
	304	301
Capital in Excess of Par Value		
Beginning balance	**563,454**	554,933
Share-based compensation employees	**1,633**	2,129
Share-based compensation non-employee directors	**67**	102
(Tax deficiency) excess tax benefit from exercise/vesting of share awards	**(420)**	23
Shares issued under share-based compensation plans		817
	564,734	558,004
Retained Earnings		
Beginning balance, as originally reported	**602,365**	467,726
Adoption of EITF No. 06-10 in 2008		(193)
Beginning balance, as adjusted	**602,365**	467,533
Net income (loss) attributable to OM Group, Inc.	**(8,277)**	55,220
	594,088	522,753
Treasury Stock		
Beginning balance	**(5,490)**	(2,239)
Reacquired shares	**(372)**	
	(5,862)	(2,239)
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	**(29,983)**	7,665
Foreign currency translation	**(10,623)**	9,381
Unrealized gain (loss) on cash flow hedges, net of tax (expense) benefit of ($165) and $117 in 2009 and 2008, respectively	**469**	(333)
	(40,137)	16,713

Total OM Group Inc. Stockholders Equity	**1,113,127**	1,095,532
Noncontrolling interest		
Beginning balance	**47,429**	52,314
Net income (loss) attributable to the noncontrolling interest	**(3,548)**	12,742
Distributions to joint venture partners		(14,934)
Foreign currency translation	**(2)**	2
	43,879	50,124
Total Equity	**$ 1,157,006**	$ 1,145,656

See accompanying notes to unaudited condensed consolidated financial statements

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Notes to Unaudited Condensed Consolidated Financial Statements
OM Group, Inc. and Subsidiaries
(In thousands, except as noted and share and per share amounts)
Note 1 Basis of Presentation
OM Group, Inc. (OMG or the Company) is a diversified global developer, producer and marketer of value-added specialty chemicals and advanced materials that are essential to complex chemical and industrial processes.
The consolidated financial statements include the accounts of OMG and its consolidated subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The Company has a 55% interest in a joint venture (GTL) that has a smelter in the Democratic Republic of Congo (the DRC). The joint venture is consolidated because the Company has a controlling interest in the joint venture. Noncontrolling interest is recorded for the remaining 45% interest.
These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company at March 31, 2009 and the results of its operations, its comprehensive income, its cash flows and changes in stockholders equity for the three months ended March 31, 2009 and 2008, have been included. The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements. Past operating results are not necessarily indicative of the results which may occur in future periods, and the interim period results are not necessarily indicative of the results to be expected for the full year. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.
Note 2 Recently Issued Accounting Standards
Accounting Standards adopted in 2009:
SFAS No. 157: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements but does not require any new fair value measurements. SFAS No. 157 only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments (SFAS No. 123R Share Based Payment). As of January 1, 2008, in accordance with FSP 157-2, the Company has adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities that are measured at fair value within the financial statements. As of January 1, 2009, the Company adopted SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. Examples of nonfinancial assets include goodwill, intangibles, and other long-lived assets. The adoption did not have a material impact on the Company s results of operations or financial position but did change the disclosures related to nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. See Note 6.
SFAS No. 160: In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51 . SFAS No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The Company adopted SFAS No. 160 on January 1, 2009. The adoption did not have any impact on the Company s results of operations or financial position but did change the financial statement presentation related to noncontrolling (minority) interests. The financial statement presentation requirement has been applied retrospectively for all periods presented. Certain

reclassifications have been made to prior period amounts to conform to the current period presentation under SFAS No. 160. The adoption resulted in a $47.4 million reclassification of noncontrolling minority interests from long-term liabilities to equity on the December 31, 2008 Unaudited Condensed Consolidated Balance Sheet.

SFAS No. 141R: In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations . SFAS No. 141R changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R requires restructuring and acquisition-related costs to be recognized separately from the acquisition and establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The Company adopted SFAS No. 141R on January 1, 2009. SFAS No. 141R will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

SFAS No. 161: On March 19, 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how: (i) an entity uses derivative instruments, (ii) derivative instruments and related hedged items are accounted for under SFAS No.133, Accounting for Derivative Instruments and Hedging Activities and (iii) derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The Company adopted SFAS No. 161 on January 1, 2009. The adoption did not have any impact on the Company s results of operations or financial position but did change the disclosures related to derivative instruments held by the Company. See Note 5.

FSP No. 142-3: In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP No. 142-3 allows the Company to use its historical experience in renewing or extending the useful life of intangible assets. The Company adopted FSP No. 142-3 on January 1, 2009. The Company will apply SFAS No. 142-3 prospectively to intangible assets acquired after January 1, 2009. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

EITF No. 08-6: In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations. EITF No. 08-6 addresses a number of matters associated with the impact that SFAS No. 141R, Business Combinations , and SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 , might have on the accounting for equity method investments. EITF No. 08-6 provides guidance on how an equity method investment should initially be measured, how it should be tested for impairment and how changes in classification from equity method to cost method should be treated, as well as other issues. The Company will apply EITF No. 08-6 prospectively. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

FSP EITF No. 03-6-1: In June 2008, the FASB ratified FSP EITF Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which clarifies EITF No. 03-6, Participating Securities and the Two-Class Method Under FAS No. 128. FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, Earnings per Share. Under EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of EPS pursuant to the two-class method. The Company adopted EITF 03-6-1 on January 1, 2009. Share-based payment awards granted by the Company do not contain nonforfeitable rights to dividends, therefore the adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

FSP FAS No. 141(R)-1: In April 2009, the FASB issued FSP FAS No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies . FSP FAS No. 141(R)-1 requires an acquirer to recognize assets acquired and liabilities assumed in a business combination that arise from contingencies at fair value, if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would be recognized in accordance with SFAS No. 5, Accounting for Contingencies. FSP FAS No. 141(R)-1 will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

Accounting Standards Not Yet Adopted

FSP FAS No. 132(R)-1: In December 2008, the FASB issued FSP FAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, amending FASB Statement No. 132(R), Employers Disclosures about Pensions and Other Postretirement

Benefits, effective for fiscal years ending after December 15, 2009. The Company will adopt FSP FAS No. 132(R)-1 in the fourth quarter of 2009. FSP FAS No. 132(R)-1 requires an employer to disclose investment policies and strategies, categories, fair value measurements, and significant concentration of risk among its pension or other postretirement benefit plan assets. The adoption of FSP FAS No. 132(R)-1 will change the disclosures related to pension assets but is not expected to have a material effect on the Company s consolidated financial statements.

FSP FAS No. 107-1 and APB No. 28-1: In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments, amending FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, effective for interim reporting periods ending after June 15, 2009. The Company will adopt FSP FAS No. 107-1 and APB No. 28-1 in the second quarter of 2009. FSP FAS No. 107-1 and APB No. 28-1 requires disclosure about the fair value of financial instruments in interim periods. The adoption of FSP FAS No. 107-1 and APB No. 28-1 will change the disclosures related to financial instruments but is not expected to have a material effect on the Company s consolidated financial statements.

Note 3 Inventories

Inventories consist of the following:

	March 31, 2009	December 31, 2008
Raw materials and supplies	**$ 162,683**	$ 168,060
Work-in-process	**13,627**	14,797
Finished goods	**99,756**	123,271
	$ 276,066	$ 306,128

The December 31, 2008 amount includes the effect of a $27.7 million charge to reduce the carrying value of certain inventories to market value, which was lower than cost at December 31, 2008, due primarily to the declining price of cobalt in the second half of 2008. Reductions in carrying value at December 31 are deemed to establish a new cost basis. Inventory is not written up if estimates of market value subsequently improve. The March 31, 2009 balance includes the effect of a $6.6 million charge to reduce the carrying value of certain inventories to market value, which was lower than cost at March 31, 2009, due primarily to a reduction in selling prices of certain products in the first quarter of 2009.

Note 4 Goodwill

Goodwill is tested for impairment on an annual basis and more often if indicators of impairment exist. The goodwill impairment test is a two-step process. During the first step, the Company estimates the fair value of the reporting unit and compares that amount to the carrying value of that reporting unit. If the estimated fair value of the reporting unit is less than its carrying value, SFAS No. 142 requires a second step to determine the implied fair value of goodwill of the reporting unit, and to compare it to the carrying value of the goodwill of the reporting unit. This second step includes valuing all of the tangible and intangible assets and liabilities of the reporting unit as if it had been acquired in a business combination.

Under SFAS No. 142, reporting units are defined as an operating segment or one level below an operating segment (i.e. component level). The Company tests goodwill at the component level. The Company s reporting units are Advanced Materials, Electronic Chemicals, Advanced Organics, Ultra Pure Chemicals (UPC) and Photomasks.

To test goodwill for impairment, the Company is required to estimate the fair value of each of its reporting units. Since quoted market prices in an active market are not available for the Company s reporting units, the Company uses other valuation techniques. The Company has developed a model to estimate the fair value of the reporting units utilizing a discounted cash flow valuation technique (DCF model). The Company selected the DCF model as it believes it is comparable to what would be used by market participants to estimate its fair value. The impairment test incorporates the Company s estimates of future cash flows; allocations of certain assets, liabilities and cash flows among reporting units; future growth rates; terminal value amounts; and the applicable weighted-average cost of capital (the WACC) used to discount those estimated cash flows. These estimates are based on management s judgment. The estimates and projections used in the estimate of fair value are consistent with the Company s current budget and long-range plans. Due to the general downturn in the economy and resulting increased uncertainty in forecasted future cash flows, the Company increased the Company-specific risk factor component in the WACC calculation in the March 31, 2009 and December 31, 2008 impairment tests.

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The Company conducts its annual goodwill impairment test as of October 1. The results of the testing as of October 1, 2008 confirmed the fair value of each of the reporting units exceeded its carrying value and therefore no impairment loss was required to be recognized. However, during the fourth quarter of 2008, indicators of potential impairment caused the Company to conduct an additional impairment test as of December 31, 2008. Those indicators included the fact that the Company s stock has been trading below net book value per share since the end of the second quarter of 2008, the incurrence of operating losses in the fourth quarter of 2008 and revisions made to the 2009 plan, and significant deterioration in the capital markets in the fourth quarter of 2008 that resulted in an increase to the respective WACC calculations.

The results of the testing as of December 31, 2008 confirmed the carrying value of the UPC reporting unit exceeded its fair value. As such, the Company undertook a preliminary step-two analysis in accordance with SFAS No. 142 in order to determine the amount of the goodwill impairment. In the fourth quarter of 2008, the Company recorded an estimated goodwill impairment charge of $8.8 million (of a total of $32.8 million of goodwill related to the UPC reporting unit). The Company finalized the step-two analysis during the first quarter of 2009 and concluded the goodwill impairment charge for UPC was $4.7 million; therefore, the Company recorded a $4.1 million adjustment in the first quarter of 2009 to reverse a portion of the 2008 charge.

During the first quarter of 2009 additional impairment indicators caused the Company to conduct an interim impairment test for its Advanced Organics reporting unit. Those indicators included the incurrence of operating losses in excess of forecast in the first quarter of 2009 and revisions made to the 2009 forecast and outlook beyond 2009 as a result of the decline in the Company s business outlook primarily due to further deterioration in certain end markets. In accordance with SFAS No. 142, the Company completed step one of the impairment analysis and concluded that, as of March 31, 2009, the carrying value of its Advanced Organics reporting unit exceeded its fair value. As such, the Company undertook a preliminary step-two analysis in accordance with SFAS No. 142 in order to determine the amount of the goodwill impairment. In the first quarter of 2009, the Company recorded an estimated goodwill impairment charge of $6.8 million to write off all of the goodwill related to the Advanced Organics reporting unit. Any adjustments to the $6.8 million estimate will be recorded upon finalization of step two of the impairment analysis, which the Company expects to complete in the second quarter of 2009.

The Company reviewed and updated as deemed necessary all of the assumptions used in its DCF model during the first quarter of 2009 to calculate the fair value of its Advanced Organics reporting unit. The estimates and judgments that most significantly affect the fair value calculation are operating cash flow assumptions and the WACC used in the DCF model.

The change in the carrying amount of goodwill by segment is as follows:

	Advanced Materials	Specialty Chemicals	Consolidated
Balance at December 31, 2008	$ 103,326	$ 165,351	$ 268,677
Foreign currency translation adjustments		(3,834)	(3,834)
Q4 2008 goodwill impairment charge adjustment		4,139	4,139
Q1 2009 goodwill impairment charge		(6,768)	(6,768)
Balance at March 31, 2009	**$ 103,326**	**$ 158,888**	**$ 262,214**

Basis of Presentation

The financial statements of the Plan are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Notes Receivable from Participants

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2012 or 2011. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be a distribution, the participant loan balance is reduced and a benefit payment is recorded.

Excess Contributions Payable

Amounts payable to participants for contributions in excess of amounts allowed by the IRS are recorded as a liability with a corresponding reduction to contributions. The Plan distributed the excess contributions to the applicable participants prior to March 15, 2013.

Uses of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Plan management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

Investments

The Plan’s investments are stated at fair value. The shares of common stock are valued at the closing price reported on the active market on which the individual securities are traded. Shares of mutual funds are valued at the net asset value (NAV) of shares held which is based on the closing price reported in the active market.

2. Summary of Significant Accounting Policies (continued)

As described in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 962 (formerly known as FASB issued staff position No. AAG INV-1 and Statement of Position (SOP) 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans), investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in an investment contract, through its participation in a common collective trust, J.P. Morgan Stable Value Investment Fund (the Stable Value Fund). As required by ASC 962, the Statements of Net Assets Available for Benefits present the fair value of the Stable Value Fund and the adjustment from fair value to contract value. The fair value of the Plan’s interest in the Stable Value Fund is based on information reported by the issuer of the common collective trust at year-end. The contract value of the Stable Value Fund represents contributions plus earnings, less participant withdrawals and administrative expenses.

Purchases and sales of securities are recorded on a trade date basis. Dividends are recorded on the ex-dividend date. Interest is recognized when earned. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year.

New Accounting Pronouncement

In May 2011, the FASB issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04). ASU 2011-04 amended ASC 820, Fair Value Measurement, to converge the fair value measurement guidance in US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures, although certain of these new disclosures will not be required for nonpublic entities. The amendments had to be applied prospectively and were effective for annual periods beginning after December 15, 2011.

3. Fair Value Measurements

Fair value is defined as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in active markets
- quoted prices for identical or similar assets or liabilities in markets that are not active
- observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Following is a description of the valuation methodologies used for major categories of assets measured at fair value by the Plan:

3. Fair Value Measurements (continued)

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Plan at year-end which is based on the closing price reported in the active market.

Common Collective Trust Fund (CCT): Fair value is based on the NAV of shares as reported by the issuer at year end. The contract value represents contributions plus earnings, less participant withdrawals and administrative expenses.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
US equities	$115,375,239	$-	$-	$115,375,239
International equities	16,358,823	-	-	16,358,823
Company common stock	5,968,270	-	-	5,968,270
Common collective trust fund (a)	--	31,277,234	-	31,277,234
Total	$137,702,332	$31,277,234	$-	$168,979,566

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
US equities	$100,252,960	$–	$–	$100,252,960
International equities	13,284,036	–	–	13,284,036
Company common stock	5,809,443	–	–	5,809,443
Common collective trust fund (a)	–	27,676,975	–	27,676,975
Total	$119,346,439	$27,676,975	$–	$147,023,414

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3. Fair Value Measurements (continued)

(a) This category includes a common collective trust fund that is designed to perform better than the average money market fund and earn consistent, reliable returns. This fund is primarily invested in a variety of high quality, interest paying securities offered with a companion investment contract, with a benefit responsive wrap. Participant-directed redemptions have no restrictions; however, the Trustee (of the CCT) reserves the right to pay out terminating plans anytime within 12 months of receiving notice at market value. The fair value of this fund has been estimated based on the fair value of the underlying investment contracts in the fund as reported by the issuer of the fund. The fair value differs from the contract value. As previously discussed in Note 2, contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan.

4. Investments

During 2012, the Plan's investments (including investments purchased, sold as well as held during the year) appreciated in fair value as follows:

Common stock (fair value determined by quoted market prices)	$208,400
Mutual funds (fair value determined by quoted market prices)	14,861,097
Common collective trust fund (fair value determined by NAV)	465,067
	$15,534,564

Investments that represent 5% or more of the fair value of the Plan's net assets are as follows:

	December 31	
	2012	2011
J.P. Morgan Stable Asset Investment Fund*	$31,837,009	$27,676,975
J.P. Morgan Equity Index Fund	26,153,344	22,903,314
J.P. Morgan Intrepid Growth Fund	11,056,170	10,446,251
J.P. Morgan Smart Retirement 2020 Fund	12,048,070	10,241,584
J.P. Morgan Smart Retirement 2030 Fund	9,535,927	7,428,714
J.P. Morgan Equity Income Fund	8,875,144	-
American Century Growth Fund	9,550,356	9,327,656
Harbour Funds International Administrative Fund	16,358,823	13,284,036
Eaton Vance Value Capital Large Company Fund	-	7,997,229

* The J.P. Morgan Stable Asset Investment Fund is shown at fair value. The contract values at December 31, 2012 and 2011 are $31,717,459 and $27,608,342, respectively.

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5. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market volatility and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

6. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (IRS), dated November 5, 2012 stating that the Plan is qualified under Section 401 (a) of the Code and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualified status. The Company believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States require Plan management to evaluate uncertain tax positions taken by the Plan. The financial statement effects for a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2008.

7. Related-Party Transactions

Transactions with parties-in-interest include investments in the Company’s common stock, participant loans, investments in JP Morgan Funds and investments through JP Morgan Chase Bank & Trust, the trustee. These transactions are exempt from the prohibited transactions rules under ERISA.

8. Excess Participant Contributions Payable

During 2012 and 2011, the Company determined that excess participant contributions had been made based on nondiscrimination testing performed for the Plan. Accordingly, the Plan refunded the excess participant contributions, plus or minus earnings or losses thereon, of $42,534 and $112,191 in 2012 and 2011, respectively, subsequent to each year end to comply with the applicable requirements of the Code. These amounts are recorded as excess participant contributions payable in the accompanying Statements of Net Assets Available for Benefits.

9. Reconciliation Between Financial Statements and Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

	December 31	
	2012	2011
Net assets available for benefits per financial statements	$175,190,277	$152,877,496
Deemed loans not reported on Form 5500	(180,671)	(94,177)
Adjustment to report common collective trust fund at fair value	559,775	68,633
Net assets available for benefits per Form 5500	$175,569,381	$152,851,952

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9. Reconciliation Between Financial Statements and Form 5500 (continued)

The following is a reconciliation of the net increase in net assets available for benefits per the financial statements to net income per Form 5500:

		Year Ended December 31, 2012
Net increase in net assets available for benefits per financial statement	$	22,312,781
Less: deemed loans not reported on Form 5500 at December 31, 2012		(180,671)
Plus: deemed loans not reported on Form 5500 at December 31, 2011		94,177
Plus: adjustment to report common collective trust fund at fair value at December 31, 2012		559,775
Less: adjustment to report common collective trust fund at fair value at December 31, 2011		(68,633)
Net income per Form 5500	$	22,717,429

Supplemental Schedule

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Astec Industries, Inc. 401(k) Retirement Plan

EIN: 62-0873632 Plan Number: 001

Schedule H, Line 4i – Schedule of Assets

(Held at End of Year)

December 31, 2012

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value		(e) Current Value
	American Century	Growth Fund	$	9,550,356
	American Century	Small Capital Value Fund		5,441,060
*	J.P. Morgan	Stable Asset Investment Fund		31,277,234
*	J.P. Morgan	Smart Retirement 2010 Fund		3,517,481
*	J.P. Morgan	Smart Retirement 2015 Fund		7,167,772
*	J.P. Morgan	Smart Retirement 2020 Fund		12,048,070
*	J.P. Morgan	Smart Retirement 2025 Fund		1,785,844
*	J.P. Morgan	Smart Retirement 2030 Fund		9,535,927
*	J.P. Morgan	Smart Retirement 2035 Fund		1,356,480
*	J.P. Morgan	Smart Retirement 2040 Fund		5,498,084
*	J.P. Morgan	Smart Retirement 2045 Fund		1,141,968
*	J.P. Morgan	Smart Retirement 2050 Fund		1,256,284
*	J.P. Morgan	Smart Retirement Income Fund		2,408,875
*	J.P. Morgan	Intrepid Growth Fund		11,056,170
*	J.P. Morgan	Equity Index Fund		26,153,344
*	J.P. Morgan	Equity Income Fund		8,875,144
*	J.P. Morgan	Prime Money Market Fund		7,838
	Goldman Sachs	Growth OP Fund		6,549,469
	Harbor Funds	International Administrative Fund		16,358,823
	PIMCO	Return Administrative Fund		1,248,808
	Schwab	Brokerage accounts		776,265
*	Astec Industries, Inc.	Common stock		5,968,270
*	Participant loans	Interest rates ranging from 4.0-9.5%, maturity varies through 2028		6,689,788
	Total assets held for investments		$	175,669,354

* Represents a party-in-interest to the Plan.

Note: Cost information has not been included because all investments are participant-directed.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this Annual Report to be signed by the undersigned, hereunto duly authorized.

ASTEC INDUSTRIES, INC.
401(k) RETIREMENT PLAN

By: /s/ David C. Silvious
Astec Industries, Inc.
401(k) Retirement Plan Committee

Date: June 28, 2013

Exhibit Index

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm