

MONARCH CEMENT CO  
Form 10-Q  
November 09, 2007

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended **September 30, 2007**, or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **0-2757**

**THE MONARCH CEMENT COMPANY**

(Exact name of registrant as specified in its charter)

**KANSAS**

(state or other jurisdiction of incorporation or organization)

**48-0340590**

(IRS employer identification no.)

**P.O. BOX 1000, HUMBOLDT, KANSAS**

(address of principal executive offices)

**66748-0900**

(zip code)

Registrant's telephone number, including area code: **(620) 473-2222**

\_\_\_\_\_  
(former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

YES  NO

As of **November 1, 2007**, there were 2,507,222 shares of Capital Stock, par value \$2.50 per share outstanding and 1,519,736 shares of Class B Capital Stock, par value \$2.50 per share outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The condensed consolidated financial statements included in this report have been prepared by our Company without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Our Company believes that the disclosures are adequate to make the information presented not misleading. The accompanying consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods presented. Those adjustments consist only of normal, recurring adjustments. The condensed consolidated balance sheet of the Company as of December 31, 2006 has been derived from the audited consolidated balance sheet of the Company as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Company's most recent annual report on Form 10-K for 2006 filed with the Securities and Exchange

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2007 and December 31, 2006

ASSETS	2 0 0 7	2 0 0 6
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 2,225,220	\$ 2,410,623
Receivables, less allowances of \$652,000 in 2007 and \$641,000 in 2006 for doubtful accounts	19,411,857	14,795,481
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 6,256,450	\$ 3,988,211
Work in process	2,515,150	2,753,095
Building products	4,467,706	3,693,636
Fuel, gypsum, paper sacks and other	3,980,696	3,465,194
Operating and maintenance supplies	9,787,328	8,677,942
Total inventories	\$ 27,007,330	\$ 22,578,078
Refundable federal and state income taxes	-	739,574
Deferred income taxes	670,000	670,000
Prepaid expenses	624,796	284,599
Total current assets	\$ 49,939,203	\$ 41,478,355
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$138,128,764 in 2007 and \$131,120,295 in 2006	92,914,596	95,112,389
DEFERRED INCOME TAXES	10,609,442	9,692,000
INVESTMENTS	14,589,077	15,275,669
OTHER ASSETS	1,301,597	945,429
	\$169,353,915	\$ 162,503,842
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,006,236	\$ 5,579,416
Line of credit payable	3,855,228	6,397,667
Current portion of advancing term loan	2,140,498	2,027,377
Accrued liabilities	5,876,821	6,102,002
Total current liabilities	\$ 19,878,783	\$ 20,106,462
LONG-TERM DEBT	18,701,119	20,055,010
ACCRUED POSTRETIREMENT BENEFITS	26,584,838	25,322,665
ACCRUED PENSION EXPENSE	3,911,696	4,040,213
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	708,864	1,023,116
STOCKHOLDERS' INVESTMENT:		

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Capital stock, par value \$2.50 per share, one vote per share -		
Authorized 10,000,000 shares, Issued 2,505,972 shares at 9/30/2007 and 2,488,285 shares at 12/31/2006	\$ 6,264,930	\$ 6,220,713
Class B capital stock, par value \$2.50 per share, supervoting rights of ten votes per share, restricted transferability, convertible at all times into Capital Stock on a share-for-share basis - Authorized 10,000,000 shares, Issued 1,520,986 shares at 9/30/2007 and 1,538,673 shares at 12/31/2006	3,802,465	3,846,682
Retained earnings	95,783,182	86,797,943
Accumulated other comprehensive loss	(6,281,962)	(4,908,962)
Total stockholders' investment	\$ 99,568,615	\$ 91,956,376
	\$ 169,353,915	\$ 162,503,842

See notes to condensed consolidated financial statements

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Three Months and Nine Months Ended September 30, 2007 and 2006 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
NET SALES	\$44,404,159	\$44,200,862	\$108,707,478	\$118,982,988
COST OF SALES	32,797,073	33,454,729	84,032,598	91,823,324
Gross profit from operations	\$ 11,607,086	\$ 10,746,133	\$24,674,880	\$27,159,664
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,628,773	3,706,587	11,020,204	10,559,245
Income from operations	\$ 7,978,313	\$ 7,039,546	\$ 13,654,676	\$ 16,600,419
OTHER INCOME (EXPENSE):				
Interest income	\$ 57,401	\$ 82,705	\$ 193,454	\$ 263,815
Interest expense	(455,529)	(582,909)	(1,479,791)	(1,341,400)
Gains on equity investments	297,012	-	2,410,698	-
Other, net	57,218	320,144	828,064	735,210
	\$ (43,898)	\$ (180,060)	\$ 1,952,425	\$ (342,375)
Income before taxes on income	\$ 7,934,415	\$ 6,859,486	\$ 15,607,101	\$ 16,258,044
PROVISION FOR INCOME TAXES	2,450,000	2,000,000	4,850,000	4,900,000
NET INCOME	\$ 5,484,415	\$ 4,859,486	\$ 10,757,101	\$ 11,358,044
RETAINED EARNINGS, beg. of period	91,184,698	82,618,260	86,797,943	76,965,363
Less cash dividends	885,931	845,661	1,771,862	1,691,322
RETAINED EARNINGS, end of period	\$ 95,783,182	\$ 86,632,085	\$95,783,182	\$86,632,085
Basic earnings per share	\$ 1.36	\$ 1.21	\$ 2.67	\$ 2.82
Cash dividends per share	\$ 0.22	\$ 0.21	\$ 0.44	\$ 0.42

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and Nine Months Ended Sept 30, 2007 and 2006 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
NET INCOME	\$ 5,484,415	\$ 4,859,486	\$ 10,757,101	\$ 11,358,044

UNREALIZED APPRECIATION (DEPRECIATION)

ON AVAILABLE FOR SALE SECURITIES (Net

of deferred tax expense (benefit) of (\$804,000), (\$836,000),

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

\$48,000 and (\$644,000), respectively)	(1,206,000)	(1,254,000)	72,000	(966,000)
<b>LESS: RECLASSIFICATION ADJUSTMENT FOR REALIZED GAINS INCLUDED IN NET INCOME</b> (net of deferred tax expense of \$120,000, \$-,\$964,000 and \$-0-, respectively)	180,000	-	1,446,000	-
<b>COMPREHENSIVE INCOME</b>	<b>\$ 4,098,415</b>	<b>\$ 3,605,486</b>	<b>\$ 9,383,101</b>	<b>\$ 10,392,044</b>

See notes to condensed consolidated financial statements

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2007 and 2006 (Unaudited)

	2007	2006
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 10,757,101	\$ 11,358,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	8,791,339	7,966,688
Minority interest in earnings (losses) of subsidiaries	(124,511)	13,756
Deferred income taxes	(442)	788
Gain on disposal of assets	(468,784)	(133,286)
Realized gain on sale of equity investments	(2,410,698)	-
Change in assets and liabilities:		
Receivables, net	(4,616,376)	(6,177,895)
Inventories	(4,429,252)	(5,403,968)
Refundable income taxes	739,574	-
Prepaid expenses	(340,197)	(460,711)
Other assets	15,992	14,759
Accounts payable and accrued liabilities	3,256,719	2,302,811
Accrued postretirement benefits	1,262,173	1,101,387
Accrued pension expense	(128,517)	199,881
Net cash provided by operating activities	\$ 12,304,121	\$ 10,782,254
<b>INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	\$ (5,955,849)	\$ (18,628,477)
Proceeds from disposals of property, plant and equipment	528,134	242,353
Payment for purchases of equity investments	(2,641,074)	(734,194)
Proceeds from sale of equity investments	3,448,365	39,204
Decrease in short-term investments, net	-	1,500,000
Purchases of subsidiaries' stock	(189,741)	(192,914)
Net cash used for investing activities	\$ (4,810,165)	\$ (17,774,028)
<b>FINANCING ACTIVITIES:</b>		
Increase (decrease) in line of credit, net	\$ (2,542,439)	\$ 9,754,659
Payments on bank loans	(1,509,387)	(1,344,913)
Payments on other long-term debt	(164,349)	(154,956)
Cash dividends paid	(3,463,184)	(3,302,105)
Subsidiaries' dividends paid to minority interest	-	(25,733)
Net cash provided by (used for) financing activities	\$ (7,679,359)	\$ 4,926,952

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Net decrease in cash and cash equivalents	\$ (185,403)	\$ (2,064,822)
Cash and Cash Equivalents, beginning of year	2,410,623	4,895,561
Cash and Cash Equivalents, end of period	\$ 2,225,220	\$ 2,830,739
Interest paid, net of amount capitalized	\$ 1,496,680	\$ 1,353,488
Income taxes paid, net of refunds	\$ 2,991,280	\$ 4,819,535
Capital equipment additions included in accounts payable	\$ 707,736	\$ 564,579
See notes to condensed consolidated financial statements		

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007 and 2006 (Unaudited), and December 31, 2006

1. For a summary of accounting policies, the reader should refer to Note 1 of the consolidated financial statements included in our Company's most recent annual report on Form 10 K.
2. Basic earnings per share of capital stock has been calculated based on the weighted average shares outstanding during each of the reporting periods. The weighted average number of shares outstanding was 4,026,958 in the third quarter of 2007 and 2006 and in the first nine months of 2007 and 2006. The Company has no common stock equivalents and therefore, does not report diluted earnings per share.
3. Our Company groups its operations into two lines of business - Cement Business and Ready-Mixed Concrete Business. The "Cement Business" refers to our manufacture and sale of cement and "Ready-Mixed Concrete Business" refers to our ready-mixed concrete, concrete products and sundry building materials business. Following is condensed information for each line for the periods indicated (in thousands):

	Three Months Ended		Nine Months Ended	
	<u>9/30/07</u>	<u>9/30/06</u>	<u>9/30/07</u>	<u>9/30/06</u>
Sales to Unaffiliated Customers				
Cement Business	\$ 20,651	\$ 21,753	\$ 50,677	\$ 54,115
Ready-Mixed Concrete Business	23,754	22,448	58,031	64,868
Intersegment Sales				
Cement Business	4,365	3,455	10,606	10,148
Ready-Mixed Concrete Business	-	915	-	915
Operating Income (Loss)				
Cement Business	7,090	7,560	13,651	17,167
Ready-Mixed Concrete Business	889	(521)	4	(567)
Capital Expenditures				
Cement Business	2,025	2,525	4,803	14,104
Ready-Mixed Concrete Business	488	2,014	1,699	3,051

	Balance as of	
	<u>9/30/07</u>	<u>12/31/06</u>
Identifiable Assets		
Cement Business	\$ 101,479	\$ 98,343
Ready-Mixed Concrete Business	38,480	34,428
Corporate Assets	29,395	29,733

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

4. The following table presents the components of net periodic pension and postretirement benefit costs allocated to Cost of Sales and Selling, General and Administrative expenses for the nine months ended September 30, 2007 and 2006:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 319,371	\$ 523,257	\$ 391,857	\$ 381,228
Interest cost	994,064	1,716,380	1,233,191	1,199,740
Expected return on plan assets	(1,100,509)	(1,912,423)	-	-
Amortization of prior service cost	43,604	76,674	-	-
Recognized net actuarial gain	133,357	100,147	-	-
Unrecognized net loss	-	-	617,121	600,381
Net periodic expense	\$ 389,887	\$ 504,035	\$ 2,242,169	\$ 2,181,349

The following table presents the components of net periodic costs for the three months ended September 30, 2007 and 2006:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 108,637	\$ 174,419	\$ 130,469	\$ 127,076
Interest cost	338,139	572,127	410,591	399,914
Expected return on plan assets	(374,347)	(637,474)	-	-
Amortization of prior service cost	14,832	25,558	-	-
Recognized net actuarial gain	45,362	33,382	-	-
Unrecognized net loss	-	-	205,470	200,127
Net periodic expense	\$ 132,623	\$ 168,012	\$ 746,530	\$ 727,117

As previously disclosed in our financial statements for the year ended December 31, 2006, Monarch expects to contribute approximately \$545,000 to the pension fund in 2007. As of September 30, 2007, we have contributed about \$218,000 and anticipate contributing an additional \$327,000 to this plan in 2007 for a total of \$545,000. The other benefits consist of postretirement benefits that are self-insured by Monarch and are paid out of Monarch's general assets. As previously disclosed in our financial statements for the year ended December 31, 2006, Monarch expects to contribute approximately \$1,400,000 to this plan in 2007. As of September 30, 2007, we have contributed about \$980,000 and anticipate contributing an additional \$420,000 to this plan in 2007.

5. A Monarch subsidiary, Monarch and three of its officers are involved in a lawsuit with the former officers of that subsidiary and companies formed by those officers. All claims against Monarch, its subsidiary and officers have been dismissed by the court; on the counterclaims asserted by Monarch and the subsidiary, summary judgment has been granted against the former officers with damage amounts still to be determined at trial. For additional information on this matter, see Item 1, Part II of this report on Form 10-Q.

6. The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the application of Statement 109 by defining a recognition threshold of "more likely than not" that the position would be sustained upon examination before any part of the benefit of that position be recognized in an enterprise's financial statements. It also provides guidance on the measurement of the tax position. The adoption of FIN 48 had no material effect on the Company's financial position, operations or cash flows.

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years before 2003.

7. The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" on December 31, 2006. The most significant change was the requirement for the Company to recognize the entire overfunded or underfunded status of its defined benefit and postretirement plans as assets or liabilities in its statement of financial position and to recognize changes, net of taxes, in that funded status in the year in which the changes occur through comprehensive income. The Company correctly recognized the funded status of the plans in its statement of financial position in its December 31, 2006 10-K filing. Subsequently, we have been advised that adjustments due to the adoption of FAS 158 for pension and postretirement should not have been included in the Statement of Comprehensive Income for the year of adoption, but rather should have been a direct adjustment to Accumulated Other Comprehensive Income. We will so report these adjustments with respect to the 2006 Statement of Comprehensive Income in the next Form 10-K filing. The "as reported" and "as revised" amounts of Other Comprehensive Income are as follows:

AS REPORTED			
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME			
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004			
	2006	2005	2004
<b>NET INCOME</b>	<b>\$ 13,215,225</b>	<b>\$ 9,658,369</b>	<b>\$ 2,569,203</b>
UNREALIZED APPRECIATION (DEPRECIATION) ON			
AVAILABLE FOR SALE SECURITIES (Net of deferred tax (benefit) expense of \$308,000, \$395,000, and \$1,615,000 for 2006, 2005 and 2004, respectively)			
	462,000	588,205	2,470,400
RECLASSIFICATION ADJUSTMENT FOR REALIZED (GAINS) LOSSES INCLUDED IN			
NET INCOME (Net of deferred tax (benefit) expense of \$0, \$155,000 and \$515,000 for 2006, 2005 and 2004, respectively)			
	-	(228,205)	(770,400)
MINIMUM PENSION LIABILITY (Net of deferred tax (benefit) expense of			
	744,802	(1,140,000)	(240,000)

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

\$497,000, \$(760,000) and \$(160,000) for 2006, 2005 and 2004, respectively)

ADOPTION OF FAS 158-PENSION

LIABILITY (Net of deferred tax

(benefit) expense of \$(872,000), \$0 and \$0 for 2006, 2005 and

2004, respectively)

(1,311,444)

-

-

ADOPTION OF FAS 158-POSTRETIREMENT LIABILITY (Net of

deferred tax (benefit) expense of \$(4,960,000), \$0 and \$0 for 2006,

2005 and 2004, respectively)

(7,444,320)

-

-

**COMPREHENSIVE INCOME**

**\$ 5,666,263**

**\$ 8,878,369**

**\$ 4,029,203**

## AS REVISED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	2006	2005	2004
<b>NET INCOME</b>	<b>\$ 13,215,225</b>	<b>\$ 9,658,369</b>	<b>\$ 2,569,203</b>
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax (benefit) expense of \$308,000, \$395,000, and \$1,615,000 for 2006, 2005 and 2004, respectively)	462,000	588,205	2,470,400
RECLASSIFICATION ADJUSTMENT FOR REALIZED (GAINS) LOSSES INCLUDED IN NET INCOME (Net of deferred tax (benefit) expense of \$0, \$155,000 and \$515,000 for 2006, 2005 and 2004, respectively)	-	(228,205)	(770,400)
MINIMUM PENSION LIABILITY (Net of deferred tax (benefit) expense of \$497,000, \$(760,000) and \$(160,000) for 2006, 2005 and 2004, respectively)	744,802	(1,140,000)	(240,000)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 14,422,027</b>	<b>\$ 8,878,369</b>	<b>\$ 4,029,203</b>

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**FORWARD-LOOKING STATEMENTS**

Certain statements under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-Q report filed with the Securities and Exchange Commission, constitute "forward-looking statements". Except for historical information, the statements made in this report are forward-looking statements that involve risks and uncertainties. You can identify these statements by forward-looking words such as "should", "expect", "anticipate", "believe", "intend", "may", "hope", "forecast" or similar words. In particular, statements with respect to variations in future demand for our products in our market area, the timing, scope, cost and benefits of our proposed and recently completed capital improvements and expansion plans, including the resulting increase in production capacity, our forecasted cement sales, the timing and source of funds for the repayment of our line of credit, our ability to pay dividends at the current level, and our anticipated increase in solid fuels and electricity required to operate our facilities and equipment are all forward-looking statements. You should be aware that forward-looking statements involve known and unknown risks, uncertainties, and other factors that may affect the actual results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others:

- general economic and business conditions;
- competition;
- raw material and other operating costs;
- costs of capital equipment;
- changes in business strategy or expansion plans;
- demand for our Company's products;
- cyclical and seasonal nature of our business;
- the affect weather has on our business;
- the affect of environmental and other government regulation; and
- the affect of federal and state funding on demand for our products.

**RESULTS OF OPERATIONS - CRITICAL ACCOUNTING POLICIES**

Reference is made to the Management's Discussion and Analysis of Financial Condition and Results of Operations - Accounting Policies incorporated herein by reference to Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for accounting policies which are considered by management to be critical to an understanding of the Company's financial statements.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the application of Statement 109 by defining a recognition threshold of "more likely than not" that the position would be sustained upon examination before any part of the benefit of that position be recognized in an enterprise's financial statements. It also provides guidance on the measurement of the tax position. The adoption of FIN 48 had no material effect on the Company's financial position, operations or cash flows.

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years before 2003.

**RESULTS OF OPERATIONS - OVERVIEW**

Our products are used in residential, commercial and governmental construction. In recent years we experienced the return of increased demand for our products. The combination of residential, commercial and governmental construction activities resulted in the need for increased production to meet our customers' needs. In response to those needs, we have made, and continue to make, investments in our plant and equipment to increase production and improve efficiencies.

Operating results for the first nine months vary considerably from year-to-year. Sales and the resulting income (loss) are significantly affected by the length and severity of winter weather and the corresponding slowdown in construction activity. Cement and ready-mixed concrete sales for the first nine months of 2007 were impacted by abnormally rainy weather, a longer period of cold weather and a slowdown in residential construction as compared to 2006. Volume decreases resulting from these conditions, partially offset by increases in price, resulted in a decrease in net income from operations.

#### **RESULTS OF OPERATIONS - THIRD QUARTER OF 2007 COMPARED TO THIRD QUARTER OF 2006**

Consolidated net sales for the three months ended September 30, 2007, increased by \$.2 million when compared to the three months ended September 30, 2006. Sales in our Cement Business were lower by \$1.1 million and sales in our Ready-Mixed Concrete Business were higher by \$1.3 million. Cement Business sales decreased \$3.1 million due to decreased volume sold and increased \$2 million due to price increases. Ready-mixed concrete sales and other sundry building materials increased by \$1.3 million due to price increases.

Consolidated cost of sales for the three months ended September 30, 2007, decreased by \$.7 million when compared to the three months ended September 30, 2006. Cost of sales in our Cement Business was lower by \$.6 million and cost of sales in our Ready-Mixed Concrete Business was lower by \$.1 million. Cement Business cost of sales decreased about \$1.8 million due to the 14.2% decrease in volume sold which was largely offset by higher production costs primarily resulting from lower production levels. Ready-Mixed Concrete Business cost of sales decreased due to a decrease in volume sold.

As a result of the above sales and cost of sales factors, our overall gross profit rate for the three months ended September 30, 2007 was 26.1% versus 24.3% for the three months ended September 30, 2006.

Sales of equity investments during the third quarter of 2007 resulted in a gain of approximately \$.3 million.

The effective tax rates for the three months ended September 30, 2007 and 2006 were 30.9% and 29.2%, respectively. The Company's effective tax rate differs from the federal and state statutory income tax rate primarily due to the effects of percentage depletion, domestic production activities deduction, minority interest in consolidated income (loss) and valuation allowance. Taxes for the current year are estimated based on prior year effective tax rates.

#### **RESULTS OF OPERATIONS - FIRST NINE MONTHS OF 2007 COMPARED TO THE FIRST NINE MONTHS OF 2006**

Consolidated net sales for the nine months ended September 30, 2007, decreased by \$10.3 million when compared to the nine months ended September 30, 2006. Sales in our Cement Business were lower by \$3.5 million and sales in our Ready-Mixed Concrete Business were lower by \$6.8 million. Cement Business sales decreased \$7.9 million due to decreased volume sold which was partially offset by \$4.4 million due to price increases. Sales in the Ready-Mixed Concrete Business decreased \$9.2 million due to decreased volume which was partially offset by \$2.4 million due to price increases primarily in sales of ready-mixed concrete.

Consolidated cost of sales for the nine months ended September 30, 2007, decreased by \$7.8 million when compared to the nine months ended September 30, 2006. Cost of sales in our Cement Business decreased by \$.5 million and cost of sales in our Ready-Mixed Concrete Business was lower by \$7.3 million. Cement Business cost of

## Edgar Filing: MONARCH CEMENT CO - Form 10-Q

sales decreased due to a 14.5% decrease in volume sold which was almost completely offset by higher production costs primarily resulting from lower production levels. Ready-Mixed Concrete Business cost of sales decreased due to a 18.1% decrease in volume sold which was partially offset by an increase in costs for raw materials, including cement, rock, sand and sundry building materials purchased for resale, due in large part to higher fuel prices.

As a result of the above sales and cost of sales factors, our overall gross profit rate for the nine months ended September 30, 2007 was 22.7% versus 22.8% for the nine months ended September 30, 2006.

Sales of equity investments during the first nine months of 2007 resulted in a gain of approximately \$2.4 million.

The effective tax rates for the nine months ended September 30, 2007 and 2006 were 31.1% and 30.1%, respectively. The Company's effective tax rate differs from the federal and state statutory income tax rate primarily due to the effects of percentage depletion, domestic production activities deduction, minority interest in consolidated income (loss) and valuation allowance. Taxes for the current year are estimated based on prior year effective tax rates.

### LIQUIDITY

We are able to meet our cash needs primarily from a combination of operations, the sale of equity investments and bank loans.

In December 2006, we renewed and modified our line of credit with our current lender. Our current unsecured credit commitment consists of a \$25 million advancing term loan maturing December 31, 2009 and a \$15 million line of credit maturing December 31, 2007. The term loan bears a floating interest rate based on JP Morgan Chase prime rate less .75% and the line of credit bears a floating interest rate based on lender's national prime rate less 1.00%. The loan agreement contains a financial covenant related to net worth which the Company was in compliance with at the end of the third quarter of 2007. As of September 30, 2007, we had borrowed \$19.9 million on the advancing term loan and \$3.9 million on the line of credit leaving a balance available on the line of credit of \$11.1 million. The annual weighted average interest rate we paid on the advancing term loan during the third quarter of 2007 and 2006 was 7.4% and 7.5%, respectively, and for the first nine months of 2007 and 2006 was 7.5% and 7.1%, respectively. The annual weighted average interest rate we paid on the line of credit during the third quarter of 2007 and 2006 was 7.2% and 7.3%, respectively, and for the first nine months of 2007 and 2006 was 7.2% and 6.9%, respectively. As of September 30, 2007, the applicable interest rate was 7.00% on the advancing term loan and 6.75% on the line of credit. The advancing term loan was used to help finance the expansion project at our cement manufacturing facility. The line of credit is used to cover operating expenses during the half of the year when we build inventory due to the seasonality of our business and for capital expenditures. Our board of directors has given management the authority to borrow an additional \$10 million for a maximum of \$50 million.

The Company plans further capital expenditures, including changes to our quarrying and grinding operation to supply the raw materials required by the increased kiln capacity, improvements to our fuel handling system and installation of an overland conveyor system to improve efficiencies in moving raw materials. However, we do not anticipate capital expenditures for 2007 to be as great as 2006 and we do not anticipate the need for additional bank financing other than that available under existing lines of credit.

For several years the Company has paid a \$.20 per share dividend in January, March, June and September. Beginning with the April 2006 Board of Directors meeting, the Board elected to increase these dividends to \$.21 per share and at the April 2007 Board of Directors meeting, the Board increased the dividend to \$.22 per share. Although dividends are declared at the Board's discretion, we project future earnings will support the continued payment of dividends at the current level.

### FINANCIAL CONDITION

## Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Total assets as of September 30, 2007 were \$169.4 million, an increase of \$6.9 million since December 31, 2006 due to increases in receivables and inventories of approximately \$4.6 million and \$4.4 million, respectively. These variations are common during the first nine months of the year due to the seasonality of our business (see Seasonality below).

Accounts payable increased about \$2.4 million as of September 30, 2007 compared to December 31, 2006 primarily due to the expenses related to increased sales volume in September over December.

Indebtedness decreased about \$3.8 million during the first nine months of 2007 primarily as a result of utilizing cash provided by operations to reduce our bank loans.

### **CAPITAL RESOURCES**

The Company regularly invests in miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business. Capital expenditures during the first nine months of 2007 included expenditures to improve efficiencies in moving raw materials. We also invested in routine equipment purchases during the first nine months of 2007, primarily in the Ready-Mixed Concrete Business. During the first nine months of 2007, cash expenditures for property, plant and equipment totaled approximately \$6 million, excluding the amounts that are included in accounts payable.

Plans under consideration for the balance of 2007 include changes to our quarrying and grinding operation to supply the raw materials required by the increased kiln capacity. The Company also plans to invest in other miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business in 2007. It is expected that the Company's capital expenditures will approximate \$10 million during 2007 and will be funded with a mixture of cash from operations and temporary bank loans. We do not anticipate the need for additional bank financing beyond the amount available through our existing line of credit.

### **MARKET RISK**

Market risks relating to the Company's operations result primarily from changes in demand for our products. A significant increase in interest rates could lead to a reduction in construction activities in both the residential and commercial market. Budget shortfalls during economic slowdowns could cause money to be diverted away from highway projects, schools, detention facilities and other governmental construction projects. Reduction in construction activity lowers the demand for cement, ready-mixed concrete, concrete products and sundry building materials. As demand decreases, competition to retain sales volume could create downward pressure on sales prices. The manufacture of cement requires a significant investment in property, plant and equipment and a trained workforce to operate and maintain this equipment. These costs do not materially vary with the level of production. As a result, by operating at or near capacity, regardless of demand, companies can reduce per unit production costs. The continual need to control production costs encourages overproduction during periods of reduced demand.

### **INFLATION**

Inflation directly affects the Company's operating costs. The manufacture of cement requires the use of a significant amount of energy. The Company burns primarily solid fuels, such as coal and petroleum coke, and to a lesser extent natural gas, in its kilns and uses a significant amount of electricity to operate our cement manufacturing equipment. An increase in such manufacturing components could adversely affect us. Prices of the specialized replacement parts and equipment the Company must continually purchase tend to increase directly with the rate of inflation causing manufacturing costs to increase.

### **SEASONALITY**

Portland cement is the basic material used in the production of ready-mixed concrete that is used in highway, bridge and building construction. These construction activities are seasonal in nature. During winter months when the ground is frozen, groundwork preparation cannot be completed. Cold temperatures affect concrete set-time, strength and durability, limiting its use in winter months. Dry ground conditions are also required for construction activities to proceed. During the summer, winds and warmer temperatures tend to dry the ground quicker creating fewer delays in construction projects.

Variations in weather conditions from year-to-year significantly affect the demand for our products during any particular quarter; however, our Company's highest revenue and earnings historically occur in its second and third fiscal quarters, April through September.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company owns \$14.6 million of equity securities, primarily publicly traded entities, as of September 30, 2007. These investments are not hedged and are exposed to the risk of changing market prices. The Company classifies these securities as "available-for-sale" for accounting purposes and marks them to market on the balance sheet at the end of each period. Management estimates that its investments will generally be consistent with trends and movements of the overall stock market excluding any unusual situations. An immediate 10% change in the market price of our equity securities would have a \$.9 million effect on comprehensive income.

The Company also has \$23.8 million of bank loans as of September 30, 2007. Interest rates on the Company's advancing term loan and line of credit are variable and are based on the JP Morgan Chase prime rate less .75% and lender's national prime rate less 1.00%, respectively.

### Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, including its President and Chairman of the Board of Directors and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company's President and Chairman of the Board of Directors and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

## Edgar Filing: MONARCH CEMENT CO - Form 10-Q

The Company and Tulsa Dynaspan, Inc. ("TDI") a subsidiary of the Company, are defendants in a case brought by David Markle, Richard Evilsizer, and five other named plaintiffs, filed in the District Court of Tulsa County, Oklahoma, on December 29, 2004 and amended on January 19, 2005, January 6, 2006, August 18, 2006, and January 12, 2007. Prior to the August 18, 2006 amendment, Plaintiffs dismissed claims they had previously asserted for defamation and various business torts, derivative claims brought on behalf of the Company, and claims to ownership of an invention relating to parking garage construction. Markle and Evilsizer remain as Plaintiffs; the five other original Plaintiffs remain in the action only as counterclaim defendants. Plaintiffs seek an award of actual and exemplary damages from the Company, one of its directors and four of TDI's directors for alleged breach of fiduciary duties owed to TDI, based upon derivative and breach of contract claims. The Company has asserted a counterclaim based upon breach of contract against Markle and TDI has asserted counterclaims based upon breach of fiduciary duty, misappropriation, violations of the Computer Fraud and Abuse Act and the Oklahoma Trade Secrets Act, unjust enrichment, and various business torts against all of the original plaintiffs. Plaintiffs also seek an order from the Court that the Company purchase Plaintiffs' shares of TDI stock for fair value. On April 10, 2007, the Court heard arguments on various motions and subsequently entered the following orders: Monarch and the individual directors' motion for summary judgment dismissing all of Plaintiffs' claims was granted; Monarch's motion for summary judgment on its pre-termination competition claim against Markle was granted; TDI's motion for summary judgment against Plaintiffs for unjust enrichment and breach of fiduciary duty was granted; Markle's motion for partial summary judgment on the non-compete agreement executed by the parties was denied. Additional hearings to establish TDI's and Monarch's damages will be necessary; all of Plaintiffs' claims have now been dismissed. Because of the failure of certain plaintiffs to participate in a pretrial conference the proceedings are now bifurcated. A court trial to establish damages against Markle, Evilsizer and three other entities is set for December 13th; a jury trial to establish damages against Martin and Bobbitt on some claims and liability and damages on other claims is set for April 14, 2008. No assurances can be given as to the outcome of this litigation.

### Item 6. Exhibits

31.1 Certificate of the President and Chairman of the Board pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.

31.2 Certificate of the Chief Financial Officer pursuant to Section 13a 14(a)/15d 14(a) of the Securities Exchange Act of 1934.

32.1 18 U.S.C. Section 1350 Certificate of the President and Chairman of the Board dated November 8, 2007.

32.2 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 8, 2007.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Monarch Cement Company

(Registrant)

Date November 8, 2007

/s/ Walter H. Wulf, Jr.

Walter H. Wulf, Jr.

President and  
Chairman of the Board

Date November 8, 2007

/s/ Debra P. Roe

Debra P. Roe, CPA

Chief Financial Officer and  
Assistant Secretary Treasurer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certificate of the President and Chairman of the Board pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certificate of the Chief Financial Officer pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1	18 U.S.C. Section 1350 Certificate of the President and Chairman of the Board dated November 8, 2007.
32.2	18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 8, 2007.