MONARCH CEMENT CO
Form 10-Q
November 09, 2009

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

FORM 10-Q

(Mark One)
[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended September 30, 2009, 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 X NO

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

Indicate by check mark 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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO X

As of October 27, 2009, there were 2,532,463 shares of Capital Stock, par value $2.50 per share outstanding and 1,491,735 shares of Class B Capital Stock, par value $2.50 per share outstanding.

PART I - FINANCIAL INFORMATION

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, 2008 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 2008 filed with the Securities and Exchange Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Item 1. Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2009 and December 31, 2008

ASSETS	2009	2008
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	$3,155,302	$3,111,509
Short-term investments, at cost which approximates fair value	-	2,100,000
Receivables, less allowances of $966,000 in 2009 and $788,000 in 2008 for doubtful accounts	21,445,816	15,499,638
Inventories, priced at cost which is not in excess of market-		
Finished cement	$5,354,644	$4,507,180
Work in process	2,312,898	1,681,765
Building products	5,384,679	5,069,230
Fuel, gypsum, paper sacks and other	7,130,811	6,312,135
Operating and maintenance supplies	11,151,473	10,943,746
Total inventories	$31,334,505	$28,514,056
Refundable federal and state income taxes	-	27,102
Deferred income taxes	710,000	710,000
Prepaid expenses	779,071	508,324
Total current assets	$57,424,694	$50,470,629
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of $159,557,848 in 2009 and $151,055,752 in 2008	88,903,515	90,803,872
DEFERRED INCOME TAXES	18,031,540	19,473,540
INVESTMENTS	18,633,591	12,740,244
OTHER ASSETS	893,527	1,276,364
	$183,886,867	$174,764,649

LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$6,762,473	$6,308,873
Line of credit payable	5,253,788	-
Current portion of advancing term loan	2,715,022	2,643,913
Accrued liabilities	7,348,804	8,553,694
Total current liabilities	$22,080,087	$17,506,480
LONG-TERM DEBT	12,843,755	15,108,016
ACCRUED POSTRETIREMENT BENEFITS	27,408,899	26,210,409
ACCRUED PENSION EXPENSE	15,363,826	14,720,952
EQUITY:		
COMPANY STOCKHOLDERS' EQUITY:		
Capital stock, par value $2.50 per share, one vote per share - Authorized 10,000,000 shares, Issued 2,532,463 shares at 9/30/2009 and 2,518,658 shares at 12/31/2008	$6,331,158	$6,296,645
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 1,491,735 shares at 9/30/2009 and 1,505,540 shares at 12/31/2008	3,729,337	3,763,850
Retained earnings	108,418,928	104,958,556
Accumulated other comprehensive loss	(12,289,123)	(14,509,123)

Total Company stockholders' equity	106,190,300	100,509,928
NONCONTROLLING INTEREST	-	708,864
Total equity	$106,190,300	$101,218,792
	$183,886,867	$174,764,649

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Three Months and the Nine Months Ended September 30, 2009 and 2008 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
NET SALES	$42,410,390	$48,876,781	$103,905,194	$116,962,489
COST OF SALES	31,761,671	36,074,978	84,553,938	93,876,580
Gross profit from operations	$10,648,719	$12,801,803	$19,351,256	$23,085,909
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,015,605	3,973,522	12,170,135	11,867,519
Income from operations	$6,633,114	$8,828,281	$7,181,121	$11,218,390
OTHER INCOME (EXPENSE):				
Interest income	$52,062	$53,413	$139,699	$191,149
Interest expense	(157,277)	(236,550)	(487,742)	(771,220)
Gains on equity investments	53,568	-	123,133	-
Dividend income	40,021	75,869	130,780	177,382
Other, net	200,645	153,925	175,713	591,359
	$189,019	$46,657	$81,583	$188,670
Income before taxes on income	$6,822,133	$8,874,938	$7,262,704	$11,407,060
PROVISION FOR INCOME TAXES	1,875,000	2,470,000	2,000,000	3,200,000
NET INCOME	$4,947,133	$6,404,938	$5,262,704	$8,207,060
Less: Net Loss attributable to noncontrolling interest	-	-	(48,799)	(174)
NET INCOME ATTRIB. TO COMPANY	$4,947,133	$6,404,938	$5,311,503	$8,207,234
RETAINED EARNINGS, beg. of period	104,397,360	99,364,723	104,958,556	98,488,627
Less cash dividends	925,565	926,201	1,851,131	1,852,401
RETAINED EARNINGS, end of period	$108,418,928	$104,843,460	$108,418,928	$104,843,460
Basic earnings per share	$1.23	$1.59	$1.32	$2.04
Cash dividends per share	$0.23	$0.23	$0.46	$0.46

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months and the Nine Months Ended September 30, 2009 and 2008 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
NET INCOME	$4,947,133	$6,404,938	$5,262,704	$8,207,060
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense (benefit) of $1,276,000, $(524,000), $1,528,000 and $(2,044,000), respectively)	1,917,568	(786,000)	2,295,133	(3,066,000)

LESS: RECLASSIFICATION ADJUSTMENT FOR REALIZED GAINS INCLUDED IN NET INCOME (net of deferred tax expense of $20,000, $-0-, $48,000, and $-0-, respectively)	33,568	-	75,133	-
COMPREHENSIVE INCOME	$6,831,133	$5,618,938	$7,482,704	$5,141,060

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2009 and 2008 (Unaudited)

	2009	2008
OPERATING ACTIVITIES:		
Net income	$5,262,704	$8,207,060
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Depreciation, depletion and amortization	9,136,307	8,830,955
Deferred income taxes, long-term	(38,000)	(42,000)
Gain on disposal of assets	(66,087)	(216,899)
Realized gain on sale of equity investments	(123,133)	-
Change in assets and liabilities:		
Receivables, net	(5,946,178)	(8,775,717)
Inventories	(2,820,449)	2,305,770
Refundable income taxes	27,102	-
Prepaid expenses	(270,747)	(343,487)
Other assets	19,697	105,413
Accounts payable and accrued liabilities	1,031,913	7,069,265
Accrued postretirement benefits	1,198,490	1,174,211
Accrued pension expense	642,874	(420,694)
Net cash provided by operating activities	$8,054,493	$17,893,877
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	$(6,857,737)	$(6,899,507)
Proceeds from disposals of property, plant and equipment	118,942	232,550
Payment for acquisition of business	-	(2,319,934)
Payment for purchases of equity investments	(3,530,703)	(4,930,019)
Proceeds from disposals of equity investments	1,460,489	-
Decrease in short-term investments, net	2,100,000	-
Net cash used for investing activities	$(6,709,009)	$(13,916,910)
FINANCING ACTIVITIES:		
Increase in line of credit, net	$5,253,788	$-
Payments on bank loans	(1,976,177)	(1,532,394)
Payments on other long-term debt	(216,975)	(241,991)
Cash dividends paid	(3,702,262)	(3,624,263)
Purchases of noncontrolling interests	(660,065)	-
Net cash used for financing activities	$(1,301,691)	$(5,398,648)
Net increase (decrease) in cash and cash equivalents	$43,793	$(1,421,681)
Cash and Cash Equivalents, beginning of year	3,111,509	4,404,116
Cash and Cash Equivalents, end of period	$3,155,302	$2,982,435
Interest paid, net of amount capitalized	$496,676	$788,714
Income taxes paid, net of refunds	$(72,660)	$1,790,000
Capital equipment additions included in accounts payable	$289,842	$44,680

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009 (Unaudited), and December 31, 2008

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. Certain reclassifications have been made to the 2008 financial statements to conform to the current year presentation. These reclassifications had no effect on net earnings.

3. For the nine months ended September 30, 2009, we restored the $.1 million temporary LIFO liquidation created by reductions in finished cement and work in process inventory in the first six months of 2009. The temporary LIFO liquidation gain had been deferred as a component of accrued liabilities. We had temporary LIFO liquidation gains during the nine months ended September 30, 2008 due to reductions in finished cement and work in process inventory of $.8 million. For the three months ended September 30, 2009, we restored $.1 million of the LIFO liquidation incurred in the first six months of 2009. We had temporary LIFO liquidation gains for the three months ended September 30, 2008 due to reductions in finished cement and work in process inventory of $.8 million.

   During the nine months and the three months ended September 30, 2009 we did not incur any permanent reductions in the LIFO layers of work in process or cement inventories. During the nine months ended September 30, 2008 we incurred a $.7 million permanent reduction in LIFO layers which was recognized as a reduction of cost of sales. During the three months ended September 30, 2008 we did not incur any permanent reductions in the LIFO layers of work in process or cement inventories.

4. 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 4,024,198 and 4,026,958 in the third quarter of 2009 and 2008, respectively. The weighted average number of shares outstanding was 4,024,198 and 4,026,958 in the first nine months of 2009 and 2008, respectively. The Company has no common stock equivalents and therefore, does not report diluted earnings per share.

5. 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, precast concrete construction, and sundry building materials business. Corporate assets for 2009 and 2008 include cash and cash equivalents, deferred income taxes, investments and other assets. Following is information for each line for the periods indicated:

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Three Months Ended 9/30/09				

Sales to unaffiliated customers	$ 17,982,074	$24,428,316	$ -	$42,410,390
Intersegment sales	3,940,641	-	(3,940,641)	-
Total net sales	$ 21,922,715	$24,428,316	$ (3,940,641)	$42,410,390
Income from operations	$ 4,980,605	$1,652,509		$6,633,114
Other income, net				189,019
Income before income taxes				$6,822,133
Capital Expenditures	$ 1,469,980	$985,253		$2,455,233
For the Three Months Ended 9/30/08				
Sales to unaffiliated customers	$23,898,613	$24,978,168	$ -	$48,876,781
Intersegment sales	4,788,475	1,079	(4,789,554)	-
Total net sales	$28,687,088	$24,979,247	$ (4,789,554)	$48,876,781
Income from operations	$8,220,387	$607,894		$8,828,281
Other income, net				46,657
Income before income taxes				$8,874,938
Capital Expenditures	$1,201,958	$827,443		$2,029,401

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Nine Months Ended 9/30/09				
Sales to unaffiliated customers	$ 43,462,640	$ 60,442,554	$ -	$ 103,905,194
Intersegment sales	9,485,585	-	(9,485,585)	-
Total net sales	$ 52,948,225	$ 60,442,554	$ (9,485,585)	$ 103,905,194
Income from operations	$ 6,509,648	$ 671,473		$ 7,181,121
Other income, net				81,583
Income before income taxes				$ 7,262,704
Capital Expenditures	$ 4,356,039	$ 2,569,626		$ 6,925,665
For the Nine Months Ended 9/30/08				
Sales to unaffiliated customers	$53,060,536	$63,901,953	$-	$116,962,489
Intersegment sales	12,006,567	1,079	(12,007,646)	-
Total net sales	$65,067,103	$63,903,032	$(12,007,646)	$116,962,489
Income (loss) from operations	$11,539,045	$(320,655)		$11,218,390
Other income, net				188,670
Income before income taxes				$11,407,060
Capital Expenditures	$2,192,725	$5,743,533		$7,936,258
Balance as of 9/30/09				
Identifiable Assets	$98,596,663	$43,866,244		$142,462,907
Corporate Assets				41,423,960
				$183,886,867
Balance as of 9/30/08				
Identifiable Assets	$96,894,209	$44,097,503		$140,991,712
Corporate Assets				33,560,322
				$174,552,034

6. 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, 2009 and 2008:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$1,265,959	$589,949	$402,827	$367,193
Interest cost	4,099,310	1,831,407	1,371,150	1,134,506
Expected return on plan assets	(4,356,624)	(2,143,163)	-	-
Amortization of prior service cost	296,466	77,786	-	-
Recognized net actuarial gain	428,325	130,938	-	-
Unrecognized net loss	-	-	598,152	723,942
Net periodic expense	$1,733,436	$486,917	$2,372,129	$2,225,641

The following table presents the components of net periodic costs for the three months ended September 30, 2009 and 2008:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$421,986	$248,352	$135,500	$109,560

Interest cost	1,366,437	770,969	461,217	338,506
Expected return on plan assets	(1,452,208)	(902,210)	-	-
Amortization of prior service cost	98,822	32,746	-	-
Recognized net actuarial gain	142,775	55,121	-	-
Unrecognized net loss	-	-	201,202	216,004
Net periodic expense	$577,812	$204,978	$797,919	$664,070

As previously disclosed in our financial statements for the year ended December 31, 2008, Monarch expected to contribute approximately $1,880,000 to the pension fund in 2009. However, final computations increased the expected contributions to $2,100,000. As of September 30, 2009, we have contributed about $1,100,000 and anticipate contributing an additional $1,000,000 to this plan in 2009 for a total of $2,100,000. 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, 2008, Monarch expects expenditures of approximately $1,560,000 for this plan in 2009. As of September 30, 2009, we have spent about $1,175,000 and anticipate spending an additional $385,000 on this plan in 2009 for a total of $1,560,000.

7. 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 2005.

8. As of September 30, 2009, the amount of accounts payable related to property, plant and equipment was $289,842 compared to December 31, 2008 which was $221,914.

9. The Company adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topic 820, "Fair Value Measurements and Disclosures" effective January 1, 2008 which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. The Company deferred until January 1, 2009 the application of FASB ASC Topic 820 “Fair Value Measurements and Disclosures” to nonfinancial assets and nonfinancial liabilities not recognized or disclosed at least annually at fair value.

   FASB ASC Topic 820 "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes a fair value hierarchy based on three levels of inputs which may be used to measure fair value. Level 1 uses quoted prices in active markets for identical assets or liabilities. Level 2 uses observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 uses unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

   Cash and cash equivalents, short-term investments, receivables, accounts payable and long-term debt have carrying values that approximate fair values. Investment fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities. If it is not practicable to estimate the fair value of an investment, the investment is recorded at cost and evaluated quarterly for events that may adversely impact its fair value.

The following table summarizes the bases used to measure certain assets at fair value on a recurring basis in the balance sheet:

		Fair Value Measurements at Reporting Date Using:		
September 30, 2009	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)
Assets:				
Available-for-sale securities	$16,609,291	$16,609,291	$ -	$ -
Total	$16,609,291	$16,609,291	$ -	$ -
December 31, 2008				
Assets:				
Available-for-sale securities	$10,939,044	$10,939,044	$ -	$ -
Total	$10,939,044	$10,939,044	$ -	$ -

The Company has no liabilities in either year requiring remeasurement to fair value on a recurring basis in the balance sheet. The Company has no additional assets or liabilities in either year requiring remeasurement to fair value on a non-recurring basis in the balance sheet.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009:

	Less than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 2,231,423	$ 472,923	$ -	$ -	$ 2,231,423	$ 472,923
Total	$ 2,231,423	$ 472,923	$ -	$ -	$ 2,231,423	$ 472,923

Due to the adverse market conditions, the Company's investments in marketable equity securities carried at fair value were evaluated for impairment by comparing the specifically identified cost of each purchase to market price. As a result of these evaluations, the Company did not identify any other-than-temporary impairments in investments which would have resulted in a recognized loss in earnings of equity investments. The Company did identify some specific purchases of marketable equity securities that were not other-than-temporarily impaired resulting in the recognition of unrealized losses (see table above). When the Company evaluated impairment by comparing the specifically identified cost of each purchase to market price as of October 26, 2009, these securities had not recovered any of their September 30, 2009 temporary impairments. The Company evaluated the near-term prospects of all of the issuers in relation to the severity and duration of the impairments. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of the entire cost bases of the securities, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2009.

The Company owns stock in two privately-owned companies accounted for by the cost method; one in the brick industry and the other in the ethanol production industry. Due to continued adverse market conditions, these investments were evaluated for impairment based on average cost and specific identification, respectively. Since there is not an active market for the brick industry investment, the Company relied on a discounted future net cash flow valuation of the investee which did not identify any impairments. The aggregate carrying cost of the Company's cost-method investments totaled $2.0 million at September 30, 2009 and December 31, 2008. The aggregate cost after impairments of the Company's cost-method investments totaled $2.0 million at September 30, 2009 and $1.8 million at December 31, 2008.

The investment results for September 30, 2009 and December 31, 2008 are as follows:

	9/30/2009	12/31/2008
Fair value of equity securities	$18,633,591	$12,740,244
Cost of equity securities	12,953,591	10,760,244
Net unrealized gains	$5,680,000	$1,980,000