

MONARCH CEMENT CO
Form 10-Q
August 08, 2008

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 **June 30, 2008**, 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, 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

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

As of **July 31, 2008**, there were 2,520,818 shares of Capital Stock, par value \$2.50 per share outstanding and 1,506,140 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, 2007 has been derived from the audited consolidated balance sheet of the

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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 2007 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

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2008 and December 31, 2007

ASSETS	2 0 0 8	2 0 0 7
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 3,648,367	\$ 4,404,116
Receivables, less allowances of \$670,000 in 2008 and \$640,000 in 2007 for doubtful accounts	21,616,002	13,531,221
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 4,485,659	\$ 6,110,974
Work in process	775,433	2,569,641
Building products	5,063,048	4,518,379
Fuel, gypsum, paper sacks and other	5,707,637	4,606,447
Operating and maintenance supplies	10,308,605	9,759,949
Total inventories	\$ 26,340,382	\$ 27,565,390
Deferred income taxes	635,000	635,000
Prepaid expenses	559,360	248,380
Total current assets	\$ 52,799,111	\$ 46,384,107
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$145,741,585 in 2008 and \$140,661,628 in 2007	93,502,609	93,301,169
DEFERRED INCOME TAXES	14,703,534	13,155,534
INVESTMENTS, \$2,101,675 in 2008 and \$2,060,850 in 2007 at cost	13,051,525	13,468,319
OTHER ASSETS	1,538,316	1,179,116
	\$ 175,595,095	\$ 167,488,245
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,635,865	\$ 6,413,945
Line of credit payable	7,029,435	-
Current portion of advancing term loan	2,140,582	2,181,524
Accrued liabilities	5,101,880	6,749,711
Total current liabilities	\$ 24,907,762	\$ 15,345,180
LONG-TERM DEBT	16,915,327	18,024,478
ACCRUED POSTRETIREMENT BENEFITS	28,044,679	27,206,515
ACCRUED PENSION EXPENSE	6,067,843	5,848,510
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	708,864	709,038
STOCKHOLDERS' INVESTMENT:		
Capital stock, par value \$2.50 per share, one vote per share -		

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Authorized 10,000,000 shares, Issued 2,519,218 shares at 6/30/2008 and 2,510,708 shares at 12/31/2007	\$ 6,298,045	\$ 6,276,770
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 1,507,740 shares at 6/30/2008 and 1,516,250 shares at 12/31/2007	3,769,350	3,790,625
Retained earnings	99,364,723	98,488,627
Accumulated other comprehensive loss	(10,481,498)	(8,201,498)
Total stockholders' investment	\$ 98,950,620	\$ 100,354,524
	\$ 175,595,095	\$ 167,488,245

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Three Months and Six Months Ended June 30, 2008 and 2007 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
NET SALES	\$ 42,996,482	\$ 40,090,959	\$ 68,085,708	\$ 64,303,319
COST OF SALES	33,992,699	30,757,645	57,801,602	51,235,525
Gross profit from operations	\$ 9,003,783	\$ 9,333,314	\$ 10,284,106	\$ 13,067,794
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,999,798	3,542,993	7,893,997	7,391,431
Income from operations	\$ 5,003,985	\$ 5,790,321	\$ 2,390,109	\$ 5,676,363
OTHER INCOME (EXPENSE):				
Interest income	\$ 62,838	\$ 70,165	\$ 137,736	\$ 136,053
Interest expense	(280,523)	(548,592)	(534,670)	(1,024,262)
Gains on equity investments	-	904,368	-	2,113,686
Dividend income	75,804	52,205	101,513	86,774
Other, net	197,244	498,986	437,608	684,072
	\$ 55,363	\$ 977,132	\$ 142,187	\$ 1,996,323
Income before taxes on income	\$ 5,059,348	\$ 6,767,453	\$ 2,532,296	\$ 7,672,686
PROVISION FOR INCOME TAXES	1,455,000	2,125,000	730,000	2,400,000
NET INCOME	\$ 3,604,348	\$ 4,642,453	\$ 1,802,296	\$ 5,272,686
RETAINED EARNINGS, beg. of period	96,686,575	87,428,176	98,488,627	86,797,943
Less cash dividends	926,200	885,931	926,200	885,931
RETAINED EARNINGS, end of period	\$ 99,364,723	\$ 91,184,698	\$ 99,364,723	\$ 91,184,698
Basic earnings per share	\$.90	\$ 1.15	\$.45	\$ 1.31
Cash dividends per share	\$ 0.23	\$ 0.22	\$ 0.23	\$ 0.22

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and Six Months Ended June 30, 2008 and 2007 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
NET INCOME	\$ 3,604,348	\$ 4,642,453	\$ 1,802,296	\$ 5,272,686

UNREALIZED APPRECIATION (DEPRECIATION)

ON AVAILABLE FOR SALE SECURITIES (Net

of deferred tax expense (benefit) of \$(1,060,000), \$204,000,

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

\$(1,520,000), and \$852,000, respectively)	(1,590,000)	310,368	(2,280,000)	1,281,686
LESS: RECLASSIFICATION ADJUSTMENT FOR REALIZED GAINS INCLUDED IN NET INCOME (net of deferred tax expense of \$-0-, \$360,000, \$-0-,and \$844,000, respectively)	-	544,368	-	1,269,686
COMPREHENSIVE INCOME (LOSS)	\$ 2,014,348	\$ 4,408,453	\$ (477,704)	\$ 5,284,686

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2008 and 2007 (Unaudited)

	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 1,802,296	\$ 5,272,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	5,834,692	5,768,977
Minority interest in losses of subsidiaries	(174)	(120,957)
Deferred income taxes	(28,000)	(442)
Gain on disposal of assets	(208,699)	(145,997)
Realized gain on sale of equity investments	-	(2,113,686)
Change in assets and liabilities:		
Receivables, net	(8,084,781)	(4,837,062)
Inventories	1,451,786	(4,853,667)
Refundable income taxes	-	739,574
Prepaid expenses	(310,980)	(375,166)
Other assets	53,375	10,740
Accounts payable and accrued liabilities	4,700,133	3,211,814
Accrued postretirement benefits	838,164	840,535
Accrued pension expense	219,333	(198,769)
Net cash provided by operating activities	\$ 6,267,145	\$ 3,198,580
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$ (4,722,884)	\$ (4,148,405)
Proceeds from disposals of property, plant and equipment	221,850	175,736
Payment for acquisition of business	(2,319,934)	-
Payment for purchases of equity investments	(3,383,206)	(931,096)
Proceeds from disposals of equity investments	-	3,051,038
Purchases of subsidiaries' stock	-	(189,740)
Net cash used for investing activities	\$ (10,204,174)	\$ (2,042,467)
FINANCING ACTIVITIES:		
Increase in line of credit, net	\$ 7,029,435	\$ 2,650,094
Payments on bank loans	(990,917)	(1,001,138)
Payments on other long-term debt	(159,176)	(107,901)
Cash dividends paid	(2,698,062)	(2,577,253)
Net cash provided by (used for) financing activities	\$ 3,181,280	\$ (1,036,198)
Net increase (decrease) in cash and cash equivalents	\$ (755,749)	\$ 119,915

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Cash and Cash Equivalents, beginning of period	4,404,116	2,410,623
Cash and Cash Equivalents, end of period	\$ 3,648,367	\$ 2,530,538
Interest paid, net of amount capitalized	\$ 547,697	\$ 1,029,351
Income taxes paid, net of refunds	\$ 560,000	\$ -
Capital equipment additions included in accounts payable	\$ 191,903	\$ 1,426

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007 (Unaudited), and December 31, 2007

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 second quarter of 2008 and 2007 and in the first six months of 2008 and 2007. 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, precast concrete construction, and sundry building materials business. Corporate assets for 2008 and 2007 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 6/30/08				
Sales to unaffiliated customers	\$ 19,627,142	\$ 23,369,340	\$	\$ 42,996,482
Intersegment sales	4,602,382		(4,602,382)	
Total net sales	\$ 24,229,524	\$ 23,369,340	\$ (4,602,382)	\$ 42,996,482
Income from operations	\$ 4,751,065	\$ 252,920		\$ 5,003,985
Other income, net				55,363
Income before income taxes				\$ 5,059,348
Capital Expenditures	\$ 427,992	\$ 4,482,091		\$ 4,910,083

For the Three Months Ended 6/30/07				
Sales to unaffiliated customers	\$ 20,285,707	\$ 19,805,252	\$	\$ 40,090,959
Intersegment sales	3,890,360	-	(3,890,360)	
Total net sales	\$ 24,176,067	\$ 19,805,252	\$ (3,890,360)	\$ 40,090,959
Income (loss) from operations	\$ 5,856,112	\$ (65,791)		\$ 5,790,321
Other income, net				977,132
Income before income taxes				\$ 6,767,453
Capital Expenditures	\$ 1,860,149	\$ 824,067		\$ 2,684,216

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Six Months Ended 6/30/08				
Sales to unaffiliated customers	\$ 29,161,923	\$ 38,923,785	\$	\$ 68,085,708
Intersegment sales	7,218,092		(7,218,092)	
Total net sales	\$ 36,380,015	\$ 38,923,785	\$ (7,218,092)	\$ 68,085,708
Income (loss) from operations	\$ 3,318,658	\$ (928,549)		\$ 2,390,109
Other income, net				142,187
Income before income taxes				\$ 2,532,296
Capital Expenditures	\$ 990,767	\$ 4,916,090		\$ 5,906,857

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

For the Six Months Ended 6/30/07

Sales to unaffiliated customers	\$ 30,026,117	\$ 34,277,202	\$	\$ 64,303,319
Intersegment sales	6,241,443	-	(6,241,443)	
Total net sales	\$ 36,267,560	\$ 34,277,202	\$ (6,241,443)	\$ 64,303,319
Income (loss) from operations	\$ 6,561,104	\$ (884,741)		\$ 5,676,363
Other income, net				1,996,323
Income before income taxes				\$ 7,672,686
Capital Expenditures	\$ 2,777,698	\$ 1,210,605		\$ 3,988,303

	Cement Business	Ready-Mixed Concrete Business	Consolidated
Balance as of 6/30/08			
Identifiable Assets	\$ 97,326,572	\$ 44,691,781	\$ 142,018,353
Corporate Assets			33,576,742
			\$ 175,595,095
Balance as of 12/31/07			
Identifiable Assets	\$ 98,071,562	\$ 36,574,598	\$ 134,646,160
Corporate Assets			32,842,085
			\$ 167,488,245

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 six months ended June 30, 2008 and 2007:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ 341,598	\$ 210,734	\$ 257,633	\$ 261,388
Interest cost	1,060,437	655,925	796,000	822,600
Expected return on plan assets	(1,240,953)	(726,162)	-	-
Amortization of prior service cost	45,040	28,771	-	-
Recognized net actuarial gain	75,817	87,995	-	-
Unrecognized net loss	-	-	507,938	411,651
Net periodic expense	\$ 281,939	\$ 257,263	\$ 1,561,571	\$ 1,495,639

The following table presents the components of net periodic costs for the three months ended June 30, 2008 and 2007:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ 186,164	\$ 108,052	\$ 109,635	\$ 130,558
Interest cost	577,917	336,320	338,735	410,872
Expected return on plan assets	(676,294)	(372,333)	-	-
Amortization of prior service cost	24,546	14,752	-	-
Recognized net actuarial gain	41,318	45,118	-	-
Unrecognized net loss	-	-	216,151	205,611
Net periodic expense	\$ 153,651	\$ 131,909	\$ 664,521	\$ 747,041

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Monarch expects to contribute approximately \$1,490,000 to the pension fund in 2008. As of June 30, 2008, we have contributed about \$76,000 in 2008 and anticipate contributing an additional \$1,414,000 to this plan in 2008 for a total of \$1,490,000. 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, 2007, Monarch expects to contribute approximately \$1,650,000 to this plan in 2008. As of June 30, 2008, we have contributed about \$725,000 in 2008 and anticipate contributing an additional \$925,000 to this plan in 2008 for a total of \$1,650,000.

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 on liability has been granted against the former officers. For additional information on this matter, see Item 1, Part II of this report on Form 10-Q.
6. 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 2004.
7. As of June 30, 2008, the amount of accounts payable related to property, plant and equipment was \$191,903 compared to December 31, 2007 which was \$546,085.
8. The Company adopted the provisions of the Financial Accounting Standards Board (FASB) SFAS No. 157, "Fair Value Measurements". SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. The standard describes three levels of inputs that 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. SFAS No. 157 is effective on a prospective basis for all fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued Staff Positions (FSP) No. 157-1 and No. 157-2 which partially defer the effective date of SFAS No. 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from its scope. The Company is evaluating the impact, if any, the adoption of these FSPs will have on the Company's consolidated financial statements.

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:

	Balance at 06/30/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	\$ 10,949,850	\$ 10,949,850	\$ -	\$ -
Total	\$ 10,949,850	\$ 10,949,850	\$ -	\$ -
	Balance at 12/31/07			
Assets:				
Available-for-sale securities	\$ 11,407,469	\$ 11,407,469	\$ -	\$ -
Total	\$ 11,407,469	\$ 11,407,469	\$ -	\$ -

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

9. Other, net contains miscellaneous nonoperating income (expense) items other than interest income, interest expense, gains on equity investments and dividend income. Material items in other, net included income from oil properties of \$207,372 and income from scrap sales of \$159,748 for the first six months of 2008. There were no material items in other, net for the first six months of 2007. For the three months ending June 30, 2008, material items in other, net included income from oil properties of \$118,017 and income from scrap sales of \$84,493. There were no material items in other, net for the three months ending June 30, 2007.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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 or the future activity of federal and state highway programs and other major construction projects, 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 revolving line of credit, our ability to pay dividends at the current level, our anticipated expenditures for benefit plans, 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 effect weather has on our business;
- the effect of environmental and other government regulation; and
- the effect 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, 2007 for accounting policies which are considered by management to be critical to an understanding of the Company's financial statements.

RESULTS OF OPERATIONS - OVERVIEW

Our products are used in residential, commercial and governmental construction. In recent years, the Company has spent substantial sums on major plant modifications designed to increase our cement production capacity to meet our customers' needs and to improve our production processes. Improvements are planned over the next few years to further improve our production processes, particularly in the handling and processing of raw materials.

Operating results for the first six months vary considerably from year-to-year. The continued slump in the residential housing market reduced demand for cement and ready-mixed concrete which resulted in sales volume decreases. Despite the volume decreases, we had higher overall sales, primarily as a result of price increases in both segments and an increase in precast concrete construction sales.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Based on sales forecasts and inventory levels at the beginning of 2008, the Company elected to reduce cement production in the first quarter of 2008 and to take that opportunity to undertake major plant repairs and maintenance, largely using our own production personnel. Our gross profits were adversely affected in the first quarter and in the early part of the second quarter of 2008 by this decision, since the ongoing costs of the cement plant, normally allocated to inventory produced, were expensed as part of plant maintenance.

RESULTS OF OPERATIONS - SECOND QUARTER OF 2008 COMPARED TO SECOND QUARTER OF 2007

Consolidated net sales for the three months ended June 30, 2008, increased by \$2.9 million when compared to the three months ended June 30, 2007. Sales in our Cement Business were lower by \$.7 million and sales in our Ready-Mixed Concrete Business were higher by \$3.6 million. Cement Business sales decreased \$.9 million due to a 4.2% decrease in volume sold and increased \$.2 million due to price increases. The Ready-Mixed Concrete Business sales increased \$2.0 million due to \$1.3 million in price increases and \$.7 million in volume increases in ready-mix concrete sales. Other sundry building materials sales also increased by \$1.6 million for the three months ended June 30, 2008 compared to the three months ended June 30, 2007.

Consolidated cost of sales for the three months ended June 30, 2008, increased by \$3.2 million when compared to the three months ended June 30, 2007. Cost of sales in our Cement Business was higher by \$.4 million and cost of sales in our Ready-Mixed Concrete Business was higher by \$2.8 million. Cement Business cost of sales increased primarily due to the costs incurred early in the second quarter due to the reduction in volume produced as discussed in "Overview" above. Ready-Mixed Concrete Business cost of sales increased \$.5 million due to the 6.3% volume increase and \$1.6 million due to material cost increases in ready-mixed concrete sales for the three months ended June 30, 2008 over the three months ended June 30, 2007 with the balance of the increase coming from increased sales volume for brick, block, and other sundry building materials.

As a result of the above sales and cost of sales factors, our overall gross profit rate for the three months ended June 30, 2008 was 20.9% versus 23.3% for the three months ended June 30, 2007. The decline was primarily due to the Cement Business which dropped from 37.5% gross profit in the three months ended June 30, 2007 to 33.6% for the three months ended June 30, 2008.

Selling, general, and administrative expenses increased by 12.9% for the three months ended June 30, 2008 compared to the same period of 2007. These costs are normally considered fixed costs that do not vary significantly with changes in volume. This increase is mainly due to an increase in personnel, primarily in the sales departments of our Ready-Mixed Concrete Business, and the costs related to their activities.

For the three months ended June 30, 2008, there were no gains realized on equity investment sales as compared to the same period in 2007 when the Company realized a gain of approximately \$.9 million.

Interest expense decreased about \$.3 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 due to a decrease in interest rates and a decrease in borrowings. The Company utilized these loans for increases in receivables, capital improvements, increases in purchases of equity investments, and temporary operating funds.

The effective tax rates for the three months ended June 30, 2008 and 2007 were 28.8% and 31.4%, 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 SIX MONTHS OF 2008 COMPARED TO THE FIRST SIX MONTHS OF 2007

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Consolidated net sales for the six months ended June 30, 2008, increased by \$3.8 million when compared to the six months ended June 30, 2007. Sales in our Cement Business were lower by \$.9 million and sales in our Ready-Mixed Concrete Business were higher by \$4.7 million. Cement Business sales decreased \$1.6 million due to a 5.3% decrease in volume sold and increased \$.7 million due to price increases. The Ready-Mixed Concrete Business sales increased by \$1.4 million due to precast concrete construction sales and \$2.2 million due to price increases in the price per cubic yard of ready-mixed concrete. The balance of the increase is primarily due to an increase in sales of other items such as brick, block, and other sundry building materials.

Consolidated cost of sales for the six months ended June 30, 2008, increased by \$6.6 million when compared to the six months ended June 30, 2007. Cost of sales in our Cement Business was higher by \$2.4 million and cost of sales in our Ready-Mixed Concrete Business was higher by \$4.2 million. Cement Business cost of sales increased primarily due to the reduction in volume produced as discussed in "Overview" above. Tons of cement produced in the first six months of 2008 declined by 16.5%, as compared to the first six months of 2007. Ready-Mixed Concrete Business cost of sales increased \$1.4 million due to the 31.1% increase in precast concrete construction sales, increased \$1.9 million due to cost increases in ready-mixed concrete materials, decreased \$.6 million due to a 2.0% decline in ready-mixed concrete cubic yards sold with the balance of the increase coming from increased sales volume for brick, block, and other sundry building materials.

As a result of the above sales and cost of sales factors, our overall gross profit rate for the six months ended June 30, 2008 was 15.1% versus 20.3% for the six months ended June 30, 2007. The decline was primarily due to the Cement Business which dropped from 34.3% gross profit in the first six months ended June 30, 2007 to 24.1% for the first six months ended June 30, 2008.

Selling, general, and administrative expenses increased by 6.8% during the first six months of 2008 compared to the first six months of 2007. These costs are normally considered fixed costs that do not vary significantly with changes in volume. This increase is partially due to an increase in sales staff in our Ready-Mixed Concrete Business and the costs related to their activities. In addition, fringe benefit costs increased due to increased health insurance costs while legal fees related to litigation declined. For additional information on legal proceedings, see Item 1, Part II of this report on Form 10-Q.

For the first six months of 2008, there were no gains realized on equity investment sales as compared to the same period in 2007 when the Company realized a gain of approximately \$2.1 million.

Interest expense decreased about \$.5 million for the first half of 2008 as compared to the first half of 2007 due to a decrease in interest rates and a decrease in borrowings. The Company utilized these loans for increases in receivables, capital improvements, increases in purchases of equity investments, and temporary operating funds.

The effective tax rates for the six months ended June 30, 2008 and 2007 were 28.8% and 31.3%, 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 and bank loans.

Net cash provided by operating activities totaled \$6.3 million and \$3.2 million for the six months ended June 30, 2008 and June 30, 2007, respectively. This was an increase in cash provided of \$3.1 million for 2008 over the same period in 2007. Net income decreased by \$3.5 million from 2007 to 2008 mainly due to the decline in the gross profit margin that resulted primarily from the reduction in volume produced as discussed under "Overview" above and the \$2.1 million decrease in realized gains on the sale of equity investments. Accounts receivables consumed \$8.1 and

\$4.8 million of cash in the first half of 2008 and 2007, respectively, primarily as a result of increased sales in June as compared to December. Refundable federal and state income taxes receivable decreased by \$.7 million to provide cash while no change occurred for the same period of 2008. Inventories used less cash in 2008 than 2007 as a result of the decision to reduce production as described under "Overview" above. As a result of the reduction, finished cement inventory decreased \$1.6 million during the first six months of 2008 and work-in-process decreased \$1.8 million while finished cement and work-in-process increased \$2.6 million and \$.3 million, respectively, during the first six months of 2007. Less cash was used in the first six months of 2008 than 2007 as shown by the \$4.2 million increase in payables and \$.2 million increase in federal and state income tax liability during the first six months of 2008 as compared to a \$1.7 million increase in payables and a \$1.7 million increase in federal and state income tax liability for 2007.

Net cash used for investing activities totaled \$10.2 million and \$2.0 million for the first six months of 2008 and 2007, respectively. The \$8.2 million increase in net cash used for investing activities during the first six months of 2008 as compared to the same period in 2007 is principally due to the increase in purchases of equity investments, the acquisition of property, plant and equipment, and the acquisition of a business while there was a \$3.1 million decrease in proceeds from disposals of equity investments. Payments for purchases of equity investments totaled \$3.4 million and \$.9 million in 2008 and 2007, respectively. Proceeds from disposals totaled \$3.1 million in 2007 while no investments were disposed of in 2008. Payments for the acquisition of property, plant and equipment totaled \$4.7 million and \$4.1 million in 2008 and 2007, respectively. Payments for the acquisition of a business consisted of \$.2 million of inventory, \$.6 million of other assets, and \$1.5 million of property, plant and equipment in 2008. There were no business acquisitions in 2007.

Net cash provided by financing activities totaled \$3.2 million for the first six months ending June 30, 2008 while financing activities used \$1.0 million during the same period in 2007. The \$4.2 million increase in cash provided in 2008 over 2007 was primarily the result of the \$4.4 million increase in the revolving line of credit at the end of the second quarter of 2008 over the same period in 2007. In both years these loans were used to cover increases in receivables, equity investments plus approximately \$6.3 million and \$4.1 million for cash expenditures on property, plant and equipment in 2008 and 2007, respectively.

In December 2007, we renewed and modified our revolving line of credit with our current lender. Our current credit facilities consist of an unsecured \$25 million advancing term loan maturing December 31, 2009 and a \$15 million revolving line of credit maturing December 31, 2008. The term loan bears a floating interest rate based on JP Morgan Chase prime rate less .75% and the revolving line of credit bears a floating interest rate based on lender's national prime rate less 1.25% for 2008. The loan agreement contains a financial covenant related to net worth which the Company was in compliance with at the end of the second quarter of 2008. As of June 30, 2008, we had borrowed \$18.4 million on the advancing term loan and \$7.0 million on the revolving line of credit leaving a balance available on the revolving line of credit of \$8.0 million. The annual weighted average interest rate we paid on the advancing term loan during the second quarter of 2008 and 2007 was 4.35% and 7.50%, respectively, and for the first six months of 2008 and 2007 was 4.91% and 7.50%, respectively. The annual weighted average interest rate we paid on the revolving line of credit during the second quarter of 2008 and 2007 was 3.85% and 7.25%, respectively, and for the first six months of 2008 and 2007 was 4.41% and 7.25%, respectively. As of June 30, 2008, the applicable interest rate was 4.25% on the advancing term loan and 3.75% on the revolving line of credit. The advancing term loan was used to help finance the expansion project at our cement manufacturing facility. The revolving line of credit was used to fund increases in receivables, capital improvements, increases in purchases of equity investments, and temporary operating expenses. Our board of directors has given management the authority to borrow an additional \$10 million for a maximum of \$50 million. No assurances can be given that we will be able to obtain this additional borrowing on favorable terms, if at all.

Projects in the planning and design phases include improvements to our fuel handling system and installation of an overland conveyor system to improve efficiencies in moving raw materials. The improvements to the fuel handling system are expected to be completed in early 2009 at a cost of approximately \$4.0 million. Installation of the

overland conveyor system will take eighteen to twenty-four months to complete after the purchase order is issued, which is expected to occur later this year. We anticipate capital expenditures for 2008 to be higher than 2007 levels, but we do not anticipate the need for additional bank financing other than that available under our existing revolving line 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, at the April 2007 Board of Directors meeting, the Board increased the dividend to \$.22 per share, and at the April 2008 Board of Directors meeting, the Board increased the dividend to \$.23 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

Total assets as of June 30, 2008 were \$175.6 million, an increase of \$8.1 million since December 31, 2007. Receivables increased approximately \$8.1 million since December 31, 2007. Such an increase is common during the first six months of the year due to the seasonality of our business (see Seasonality below). Deferred income tax asset increased \$1.5 million primarily due to a reduction in deferred income tax liability resulting from the \$2.3 million decrease in net unrealized holding gains related to equity investments.

Accounts payable increased \$4.2 million as of June 30, 2008 compared to December 31, 2007 primarily due to the expenses related to increased sales volume in June over December.

Indebtedness increased \$5.9 million during the first six months of 2008 primarily due to funding the increases in receivables just discussed plus increases in purchases of equity investments and approximately \$6.3 million for cash expenditures for property, plant and equipment.

Accrued liabilities decreased \$1.6 million since December 31, 2007 primarily due to the \$1.8 million decrease in cash dividends liability caused by the timing of when dividends are declared.

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 six months of 2008 included expenditures to improve efficiencies in moving raw materials. We also invested in routine equipment purchases during the first half of 2008, primarily in the Ready-Mixed Concrete Business. During the first six months of 2008, cash expenditures for property, plant and equipment totaled approximately \$6.3 million, excluding the amounts that are included in accounts payable.

The Company is heavily involved in the planning and design phases for two future capital expenditure projects in the Cement Business. These projects include improvements to our fuel handling system and installation of an overland conveyor system to improve efficiencies in moving raw materials. The improvements to the fuel handling system are expected to be completed in early 2009 at a cost of approximately \$4.0 million. Installation of the overland conveyor system is anticipated to take eighteen to twenty-four months to complete after the purchase order is issued, which is expected to occur later this year. The Company also plans to invest in other miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business in 2008. It is expected that the Company's capital expenditures will approximate \$14.0 million during 2008 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 revolving 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. Increases above the rate of inflation in the cost of these solid fuels, natural gas, or in the electricity required to operate our cement manufacturing equipment could adversely affect our operating profits. We anticipate a significant increase in our fuel cost in 2009 as a result of the expiration of a five year coal contract at the end of 2008. 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.

ENVIRONMENTAL REGULATIONS

Regulation of carbon dioxide emissions are currently being discussed by both state and federal legislative bodies and regulators. As part of the chemical process involved in the production of portland cement, carbon dioxide is driven off of raw materials. While management is studying practices and technology which may reduce or sequester carbon dioxide emissions, the current state of technology has yet to provide a solution. The effect of regulation may increase taxes, penalties, and the cost of production, as well as require additional capital expenditures for equipment.

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 \$13.1 million of equity securities, primarily of publicly traded entities, as of June 30, 2008. The aggregate amount of securities carried at cost, for which the Company has not elected the fair value option, was \$2.1 million as of June 30, 2008. The balance of these investments, which are stated at fair market value, are not hedged and are exposed to the risk of changing market prices. The Company classifies all securities as "available-for-sale" for accounting purposes and marks them to market on the balance sheet at the end of each period

unless they are securities for which the Company has not elected the fair value option. Management estimates that its publicly traded 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 \$.7 million effect on comprehensive income. The Company is not aware of any events or changes in circumstances that occurred during the first half of 2008 that had a significant adverse effect on the fair value of the investments carried at cost.

The Company also has \$25.4 million of bank loans as of June 30, 2008. Interest rates on the Company's advancing term loan and revolving line of credit are variable and are based on the JP Morgan Chase prime rate less .75% and lender's national prime rate less 1.25%, respectively.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-5(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-5(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 June 30, 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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. Markle and Evilsizer have filed bankruptcy. Complaints to collect damages from Markle and Evilsizer have been filed in the Bankruptcy courts. A hearing on actual and punitive damages against Parking Builders, GBS and ENCO was held on February 1, 2008. On February 29, 2008, TDI was awarded \$3,117,574 in actual damages and an additional \$3,117,574 in punitive damages against GBS and ENCO; TDI was awarded \$1,614,720 in actual damages and an additional \$1,614,720 in punitive damages against Parking Builders. No assurances can be given as to the collectability of these damage awards. TDI has settled its claims against Martin and Bobbitt.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of the stockholders of The Monarch Cement Company held on April 9, 2008, the stockholders elected three Class I Directors, namely, David L. Deffner, Gayle C. McMillen, and Richard N. Nixon to serve terms expiring at the annual meeting of stockholders in 2011. No other matters were voted upon at the annual meeting. Class II Directors, namely, Byron J. Radcliff, Michael R. Wachter, Walter H. Wulf, Jr., and Walter H. Wulf, III and Class III Directors, namely, Jack R. Callahan, Ronald E. Callaway, Robert M. Kissick and Byron K. Radcliff, continue to serve terms expiring at the annual meetings of stockholders in 2009 and 2010, respectively.

The following is a summary of votes cast in the election of Directors at the annual meeting:

	For	Withhold Authority/ Against	Abstentions/Broker Non-votes
David L. Deffner	14,339,939	59,362	-
Gayle C. McMillen	14,307,119	59,362	-
Richard N. Nixon	14,387,047	59,362	-

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 August 8, 2008.

32.2 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated August 8, 2008.

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 August 8, 2008

/s/ Walter H. Wulf, Jr.

Walter H. Wulf, Jr.

President and
Chairman of the Board

Date August 8, 2008

/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 August 8, 2008.
32.2	18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated August 8, 2008.