

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

MONARCH CEMENT CO
Form 10-Q
August 11, 2004

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

(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, 2004, 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 48-0340590____
(state or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

P.O. BOX 1000, HUMBOLDT, KANSAS 66748-0900
(address of principal executive offices) (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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 6, 2004, there were 2,403,197 shares of Capital Stock, par value \$2.50 per share outstanding and 1,623,761 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.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

The condensed consolidated balance sheet of the Company as of December 31, 2003 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 2003 filed with the Securities & 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

CONSOLIDATED BALANCE SHEETS

June 30, 2004 and December 31, 2003

ASSETS	2 0 0 4 (Unaudited)	2 0 0 3
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,853,521	\$ 5,438,018
Receivables, less allowances of \$610,000 in 2004 and \$591,000 in 2003 for doubtful accounts	21,914,256	13,852,596
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 3,551,061	\$ 2,553,258
Work in process	2,535,678	919,646
Building products	1,852,698	1,559,424
Fuel, gypsum, paper sacks and other	4,575,305	4,022,894
Operating and maintenance supplies	7,827,435	7,063,030
Total inventories	\$ 20,342,177	\$ 16,118,252
Deferred income taxes	572,225	573,000
Prepaid expenses	643,204	155,011
Total current assets	\$ 46,325,383	\$ 36,136,877
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$109,219,774 in 2004 and \$105,703,279 in 2003	78,975,322	77,884,890
DEFERRED INCOME TAXES	1,607,750	2,447,000
INVESTMENTS	13,979,002	11,502,902
OTHER ASSETS	1,692,260	1,860,762
	\$142,579,717	\$129,832,431
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,400,132	\$ 6,435,292
Bank loan payable	9,986,803	-
Current portion of advancing term loan	3,406,381	3,353,778
Accrued liabilities	3,386,502	5,284,474
Total current liabilities	\$ 27,179,818	\$ 15,073,544
LONG-TERM DEBT	17,831,257	19,694,501
ACCRUED POSTRETIREMENT BENEFITS	9,999,434	9,554,920
ACCRUED PENSION EXPENSE	564,355	385,543
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,872,997	1,915,605
STOCKHOLDERS' INVESTMENT:		
Capital stock, par value \$2.50 per share,		

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

One vote per share - Authorized 10,000,000 shares, Issued 2,404,207 shares at 6/30/2004 and 2,389,381 shares at 12/31/2003	\$ 6,010,518	\$ 5,973,453
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 1,622,751 shares at 6/30/2004 and 1,637,577 shares at 12/31/2003	4,056,877	4,093,942
Retained earnings	71,804,461	71,180,923
Accumulated other comprehensive loss	3,260,000	1,960,000
Total stockholders' investment	\$ 85,131,856	\$ 83,208,318
	\$142,579,717	\$129,832,431

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 the Six Months Ended June 30, 2004 and 2003
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
NET SALES	\$40,730,540	\$29,593,928	\$68,379,837	\$48,563,380
COST OF SALES	36,005,888	24,496,826	60,362,436	42,440,129
Gross profit from operations	\$ 4,724,652	\$ 5,097,102	\$ 8,017,401	\$ 6,123,251
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,049,664	2,943,906	6,127,037	5,827,183
Income from operations	1,674,988	\$ 2,153,196	\$ 1,890,364	\$ 296,068
OTHER INCOME (EXPENSE):				
Interest income	\$ 114,266	\$ 120,122	\$ 139,867	\$ 177,104
Interest expense	(221,104)	(276,339)	(400,668)	(530,321)
Other, net	77,473	515,785	399,367	731,355
	\$ (29,365)	\$ 359,568	\$ 138,566	\$ 378,138
Income before taxes on income	\$ 1,645,623	\$ 2,512,764	\$ 2,028,930	\$ 674,206
PROVISION FOR TAXES ON INCOME	485,000	775,000	600,000	200,000
NET INCOME	\$ 1,160,623	\$ 1,737,764	\$ 1,428,930	\$ 474,206
RETAINED EARNINGS, beg of period	71,449,230	69,318,486	71,180,923	70,582,044
Less cash dividends	805,392	805,392	805,392	805,392

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

RETAINED EARNINGS, end of period	\$71,804,461	\$70,250,858	\$71,804,461	\$70,250,858
Basic earnings per share	\$.29	\$.43	\$.35	\$.12
Cash dividends per share	\$.20	\$.20	\$.20	\$.20

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and the Six Months Ended June 30, 2004 and 2003 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
NET INCOME	\$ 1,160,623	\$ 1,737,764	\$ 1,428,930	\$ 474,206
UNREALIZED APPRECIATION ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense of \$300,000, \$320,000, \$800,000 and \$280,000, respectively)	500,000	480,000	1,300,000	420,000
COMPREHENSIVE INCOME	\$ 1,660,623	\$ 2,217,764	\$ 2,728,930	\$ 894,206

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, 2004 and 2003 (Unaudited)

	2004	2003
OPERATING ACTIVITIES:		
Net income	\$ 1,428,930	\$ 474,206
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation, depletion and amortization	4,851,804	5,406,531
Minority interest in losses of subsidiaries	(34,904)	(306,091)
Deferred income taxes	25	415
Gain on disposal of assets	(104,387)	(320,235)
Realized gain on sale of other investments	(22)	(393,393)
Change in assets and liabilities:		
Receivables, net	(8,061,660)	713,385
Inventories	(4,223,925)	(5,631,838)
Refundable federal and state income taxes	-	203,633
Prepaid expenses	(488,193)	(882,109)
Other assets	8,821	7,636
Accounts payable and accrued liabilities	3,677,651	(111,452)
Accrued postretirement benefits	444,514	137,167
Accrued pension expense	178,812	186,523
Net cash used for operating activities	\$ (2,322,534)	\$ (515,622)
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$ (5,874,128)	\$ (3,164,542)
Proceeds from disposals of property, plant and equipment	296,937	367,961
Payment for purchases of equity investments	(376,101)	(132,493)

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Proceeds from disposals of equity investments	23	645,697
Net purchases of subsidiaries' stock	(68,681)	-
 Net cash used for investing activities	 \$ (6,021,950)	 \$ (2,283,377)
 FINANCING ACTIVITIES:		
Proceeds from bank loans	\$ 8,176,162	\$ 4,163,429
Cash dividends paid	(2,416,175)	(2,416,175)
 Net cash provided by financing activities	 \$ 5,759,987	 \$ 1,747,254
 Net decrease in cash and cash equivalents	 \$ (2,584,497)	 \$ (1,051,745)
 CASH AND CASH EQUIVALENTS, beginning of year	 5,438,018	 3,909,215
 CASH AND CASH EQUIVALENTS, end of period	 \$ 2,853,521	 \$ 2,857,470
 Interest paid, net of amount capitalized	 \$429,828	 \$564,005
Income tax paid, net of refunds	\$688,063	\$ (3,643)

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS June 30, 2004 and 2003 (Unaudited), and December 31, 2003

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 2004 and 2003 and in the first six months of 2004 and 2003. 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-Mix 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		Six Months Ended	
	6/30/04	6/30/03	6/30/04	6/30/03
Sales to Unaffiliated Customers				
Cement Business	\$15,802	\$10,568	\$22,096	\$17,859
Ready-Mixed Concrete Business	24,929	19,026	46,284	30,704
Intersegment Sales				
Cement Business	2,987	3,025	5,030	4,869

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Ready-Mixed Concrete Business	-	-	-	-
Operating Income (Loss)				
Cement Business	2,325	2,496	3,036	2,220
Ready-Mixed Concrete Business	(650)	(343)	(1,146)	(1,924)
Capital Expenditures				
Cement Business	1,588	342	2,664	611
Ready-Mixed Concrete Business	2,535	1,297	3,210	2,554
			Balance as of	
			6/30/04	12/31/03
Identifiable Assets				
Cement Business			\$77,596	\$70,212
Ready-Mixed Concrete Business			44,279	37,798
Corporate Assets-			20,705	21,822

4. The Company records revenue from the sale of cement, ready-mixed concrete, concrete products and sundry building materials when the products are delivered to the customers. Concrete products are also sold through long-term construction contracts. Revenues for these contracts are recognized on the percentage-of-completion method based on the costs incurred relative to total estimated costs. Full provision is made for any anticipated losses. Billings for long-term construction contracts are rendered monthly, including the amount of retainage withheld by the customer until contract completion. Retainages are included in accounts receivable and are generally due within one year.

5. Capital expenditures for property, plant and equipment were approximately \$5,874,000 during the first six months of 2004. These funds were primarily used for the installation of the coal mill in the Cement Business and to upgrade equipment in the Ready-Mixed Concrete Business.

6. The following table presents the components of net periodic costs as of June 30, 2004 and 2003:

	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
Service cost	\$229,978	\$144,407	\$ 213,039	\$ 86,783
Interest cost	819,121	585,449	584,230	446,304
Expected return on plan assets	(920,092)	(537,615)	-	-
Amortization of prior service costs	37,562	26,171	-	-
Recognized net actuarial gain	12,242	47,763	-	-
Unrecognized net loss	-	-	214,067	90,321
Net periodic pension expense	\$178,811	\$266,175	\$1,011,336	\$623,408

As previously reported in our financial statements for the year ended December 31, 2003, we do not expect to contribute to the pension plan in 2004. 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, 2003, Monarch expects to contribute \$1,000,000 to this plan in 2004. As of June 30, 2004, we have contributed \$566,823 and anticipate contributing an additional \$575,000 to this plan in 2004 for a total of \$1,140,000.

\THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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, 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

Our products are used in residential, commercial and governmental construction. For several years we experienced continued increases in the 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 made investments in our plant and equipment to increase production and improve efficiencies. We are confident that we will benefit from these investments as the economy continues to improve.

For the first half of 2004, we are encouraged with the level of construction activity in our market area. Although intermittent rains have hampered construction projects and reduced efficiencies in our ready-mixed concrete operations, sales continue to exceed last year's year-to-date levels. For the balance of the year, we anticipate continued strong demand for our products in both the Cement Business and Ready-Mixed Concrete Business. Cement imports are projected to significantly decrease in 2004 due to the limited availability of ships and increased freight rates providing increased demand for domestic cement. The increase in steel prices also adds upward pressure to the demand for cement as concrete construction becomes more competitive with steel construction. These factors and the general improvement in economic conditions are the basis for our projected increase in both sales volume and average price for the year 2004.

2nd Quarter

Consolidated net sales for the quarter ended June 30, 2004, increased by \$11,136,612 when compared to the quarter ended June 30, 2003. Sales in our

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Cement Business were higher by \$4,196,098, while sales in our Ready-Mixed Concrete Business increased \$6,940,514. Improved economic conditions resulted in higher sales volumes in both the Cement and Ready-Mixed Concrete Business. The Cement Business also benefited from modest price increases while billings for construction contracts added to the Ready-Mixed Concrete Business sales.

Our overall gross profit rate for the three months ended June 30, 2004 was 11.6% versus 17.2% for the three months ended June 30, 2003 primarily due to increased maintenance costs in the Cement Business during the second quarter of 2004 as compared to the second quarter of 2003. Due to the size and complexity of our equipment, maintenance costs can vary significantly from quarter-to-quarter depending on the timing of projects and type of work performed.

Selling, general, and administrative expenses increased by 3.6% during the second quarter of 2004 compared to the second quarter of 2003. These costs are normally considered fixed costs that do not vary significantly with changes in sales volume. The increase is primarily due to rising health care costs and professional expenses, although no single factor increased materially.

Other, net decreased \$438,312 during the second quarter of 2004 as compared to the second quarter of 2003 primarily due to a gain on the sale of equity investments in 2003.

The effective tax rates for the second quarter of 2004 and 2003 were 29.5% and 30.8%, 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 and minority interest in consolidated income (loss).

Year-to-Date

Consolidated net sales for the six months ended June 30, 2004 were \$68,379,837, an increase of \$19,816,457 as compared to the six months ended June 30, 2003. Sales in our Cement Business were higher by \$4,236,826 while sales in our Ready-Mixed Concrete Business increased by \$15,579,631. Improved economic conditions resulted in higher sales volumes in both the Cement and Ready-Mixed Concrete Business. The Cement Business also benefited from modest price increases while billings for construction contracts added to the Ready-Mixed Concrete Business sales.

Our overall gross profit rate for the six months ended June 30, 2004 was 11.7% versus 12.6% for the six months ended June 30, 2003. Gross profit rate in the Cement Business decreased 1.4% and gross profit rate in the Ready-Mixed Concrete Business increased by .8%.

Selling, general, and administrative expenses increased 5.1% for the first six months of 2004 compared to the first six months of 2003. These costs are normally considered fixed costs that do not vary significantly with changes in sales volume. The increases are primarily due to rising health care costs and professional expense, although no single factor increased materially.

Interest expense decreased \$129,653 for the first half of 2004 as compared to the first half of 2003 primarily due to a reduction in the average amount of bank loans outstanding during the first six months of 2004 compared to the first six months of 2003. Slightly lower interest rates also contributed to the reduced costs.

Other, net decreased \$331,988 during the first six months of 2004 as compared to the first six months of 2003 primarily due to a gain on the sale of equity investments in 2003.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

The effective tax rates for the six months ended June 30, 2004 and 2003 were 29.6% and 29.7%, 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 and minority interest in consolidated income.

LIQUIDITY

We are able to meet our cash needs primarily from a combination of operations and bank loans. Cash decreased during the first six months of 2004 primarily due increases in receivables and inventories, the purchase of equipment and the payment of dividends.

In December 2003, Monarch renewed our line of credit with a bank for another year. Our current unsecured credit commitment consists of a \$25,000,000 advancing term loan maturing December 31, 2005 and a \$10,000,000 line of credit maturing December 31, 2004. These loans bear floating interest rates based on JP Morgan Chase prime rate less 1.25% and .75%, respectively. The loan agreement contains a financial covenant related to net worth which the Company was in compliance with at the end of the first six months of 2004. As of June 30, 2004, we had borrowed \$20,028,387 on the advancing term loan and \$9,986,803 on the line of credit leaving a balance available on the line of credit of \$13,197. The average daily interest rate we paid on the advancing term loan during the second quarter of 2004 and 2003 was 2.75% and 3.0%, respectively, and for the first six months of 2004 and 2003 was 2.75% and 3.0%, respectively. The average daily interest rate we paid on the line of credit during the second quarter of 2004 and 2003 was 3.25% and 3.5%, respectively, and the first six months of 2004 and 2003 was 3.25% and 3.5%, respectively. As of June 30, 2004, the applicable interest rate was 3.0% on the advancing term loan and 3.5% 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 was used to cover operating expenses during the first six months of the year when we build inventory due to the seasonality of our business. We anticipate that the line of credit maturing December 31, 2004 will be paid using funds from operations or replacement bank financing. Our board of directors has given management the authority to borrow an additional \$15,000,000 for a maximum of \$50,000,000.

FINANCIAL CONDITION

Total assets as of June 30, 2004 were \$142,579,717, an increase of \$12,747,286 since December 31, 2003 due primarily to increases in receivables and inventories. These variations are common during the first half of the year due to the seasonality of our business (see Seasonality below). Investments increased \$2,476,100 primarily as a result of unrealized gains on equity investments.

Accounts payable increased \$3,964,840 as of June 30, 2004 compared to December 31, 2003 primarily due to June expenses related to the increased sales volume in the Ready-Mixed Concrete Business.

Indebtedness increased \$8,176,162 during the first six months of 2004 primarily due to funding the increase in receivables and inventories.

Stockholders' investment increased 2.3% during the first six months of 2004 primarily due to the net income. Basic earnings were \$.35 per share.

CAPITAL RESOURCES

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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 2004 included work on the installation of a coal firing system to fuel our precalciner kiln. This installation is projected to be completed by the end of the third quarter of 2004. We also invested in routine equipment purchases during the first six months of 2004, primarily in the Ready-Mixed Concrete Business. For the balance of the year, in addition to completing the installation of the coal firing system, we anticipate continuing our practice of applying a sufficient amount of capital resources to keep our equipment and facilities up-to-date.

After completion of the coal firing system, preliminary plans are underway to install a new clinker cooler followed by the installation of a precalciner on our second cement kiln. We will continue to evaluate market conditions, other proposed capital expenditures and the Company's cash resources as we finalize the timing of the clinker cooler and precalciner installations. Additional bank financing may be required if we elect to proceed with these projects.

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 markets. 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.

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 1.25% and .75%, respectively.

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, in its preheater kiln. We do not anticipate a significant increase above the rate of inflation in the cost of these solid fuels, or in the electricity required to operate our cement manufacturing equipment. In 2001, the Company added a precalciner to one of its kilns to increase production capacity. This precalciner burns natural gas. Increases in natural gas prices exceeding the rate of inflation create an above average increase in manufacturing costs. The Company has commenced installation of a coal firing system for its precalciner kiln to reduce dependence on natural gas. 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.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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 has \$13,979,002 of equity securities as of June 30, 2004. 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 an \$840,000 effect on comprehensive income.

The Company also has \$30,015,190 of bank loans as of June 30, 2004. 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 1.25% and .75%, 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.

The Company's management, including its President and Chairman of the Board of Directors and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures within 90 days of the filing date of this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's President and Chairman of the Board of Directors and Chief Financial Officer have concluded that the design and operation of these disclosure controls and procedures are effective. There has been no change in the Company's internal control over financial reporting during the quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

PART II. OTHER INFORMATION

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 14, 2004, the stockholders elected four Class III Directors, namely, Jack R. Callahan, Ronald E. Callaway, Robert M. Kissick, and Byron K. Radcliff, to serve terms expiring at the annual meeting of stockholders in 2007. Class I Directors, namely, David L. Deffner, Gayle C. McMillen, and Richard N. Nixon and Class II Directors, namely, Byron J. Radcliff, Michael R. Wachter, Walter H. Wulf, Jr., and Walter H. Wulf, III continue to serve terms expiring at the annual meetings of stockholders in 2005 and 2006, respectively.

The following is a summary of votes cast.

	For	Withhold Authority/ Against	Abstentions/ Broker Non-votes
Jack R. Callahan	14,846,725	84,798	N/A
Ronald E. Callaway	14,856,076	84,798	N/A
Robert M. Kissick	14,852,846	84,798	N/A
Byron K. Radcliff	14,842,157	84,798	N/A

Item 6. Exhibits and Reports on Form 8-K

(a) 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 11, 2004.

32.2 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated August 11, 2004.

(b) Reports on Form 8-K. There were no reports required to be filed on Form 8-K during the quarter for which this report is being filed (April 1, 2004 to June 30, 2004, inclusive).

S I G N A T U R E S

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)

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Date August 11, 2004 /s/ Walter H. Wulf, Jr.
Walter H. Wulf, Jr.
President and
Chairman of the Board

Date August 11, 2004 /s/ Debra P. Roe
Debra P. Roe, CPA
Chief Financial Officer and
Assistant Secretary-Treasurer

EXHIBIT INDEX

Exhibit Number	Description
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 11, 2004.
32.2	18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated August 11, 2004.