

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

MONARCH CEMENT CO  
Form 10-Q  
November 12, 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 September 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 November 9, 2004, there were 2,403,322 shares of Capital Stock, par value \$2.50 per share outstanding and 1,623,636 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

September 30, 2004 and December 31, 2003

ASSETS	2 0 0 4	2 0 0 3
	(Unaudited)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,553,499	\$ 5,438,018
Receivables, less allowances of \$624,000 in 2004 and \$591,000 in 2003 for doubtful accounts	23,685,093	13,852,596
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 1,097,490	\$ 2,553,258
Work in process	1,661,707	919,646
Building products	1,767,528	1,559,424
Fuel, gypsum, paper sacks and other	4,736,273	4,022,894
Operating and maintenance supplies	8,711,526	7,063,030
Total inventories	\$ 17,974,524	\$ 16,118,252
Deferred income taxes	572,225	573,000
Prepaid expenses	450,775	155,011
Total current assets	\$ 46,236,116	\$ 36,136,877
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$111,182,281 in 2004 and \$105,703,279 in 2003	80,625,299	77,884,890
DEFERRED INCOME TAXES	1,374,750	2,447,000
INVESTMENTS	14,355,547	11,502,902
OTHER ASSETS	1,624,534	1,860,762
	\$144,216,246	\$129,832,431
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 11,634,390	\$ 6,435,292
Bank loan payable	8,898,814	-
Current portion of advancing term loan	3,432,496	3,353,778
Accrued liabilities	3,722,205	5,284,474
Total current liabilities	\$ 27,687,905	\$ 15,073,544
LONG-TERM DEBT	16,910,002	19,694,501
ACCRUED POSTRETIREMENT BENEFITS	10,237,588	9,554,920
ACCRUED PENSION EXPENSE	651,191	385,543
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,887,946	1,915,605
<b>STOCKHOLDERS' INVESTMENT:</b>		
Capital stock, par value \$2.50 per share,		

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

1 vote per share - Authorized 10,000,000 shares, Issued 2,403,197 shares at 9/30/2004 and 2,389,381 shares at 12/31/2003	\$	6,007,993	\$	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 1,623,761 shares at 9/30/2004 and 1,637,577 shares at 12/31/2003		4,059,402		4,093,942
Retained earnings		73,264,219		71,180,923
Accumulated other comprehensive income		3,510,000		1,960,000
Total stockholders' investment		\$ 86,841,614		\$ 83,208,318
		\$144,216,246		\$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 Nine Months Ended September 30, 2004 and 2003  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
NET SALES	\$44,365,950	\$40,762,569	\$112,745,787	\$89,325,949
COST OF SALES	38,331,126	33,766,360	98,693,562	76,206,489
Gross profit from operations	\$ 6,034,824	\$ 6,996,209	\$14,052,225	\$ 13,119,460
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,799,342	3,102,130	8,926,379	8,929,313
Income from operations	\$ 3,235,482	\$ 3,894,079	\$ 5,125,846	\$ 4,190,147
OTHER INCOME (EXPENSE):				
Interest income	\$ 109,861	\$ 110,037	\$ 249,728	\$ 287,141
Interest expense	(227,597)	(255,900)	(628,265)	(786,221)
Other, net	122,403	84,372	521,770	815,727
	\$ 4,667	\$ (61,491)	\$ 143,233	\$ 316,647
Income before taxes on income	\$ 3,240,149	\$ 3,832,588	\$ 5,269,079	\$ 4,506,794
PROVISION FOR TAXES ON INCOME	975,000	1,240,000	1,575,000	1,440,000
NET INCOME	\$ 2,265,149	\$ 2,592,588	\$ 3,694,079	\$ 3,066,794
RETAINED EARNINGS, beg. of period	71,804,461	70,250,858	71,180,923	70,582,044
Less cash dividends	805,391	805,391	1,610,783	1,610,783

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

RETAINED EARNINGS, end of period	\$73,264,219	\$72,038,055	\$73,264,219	\$72,038,055
Basic earnings per share	\$.56	\$.64	\$.92	\$.76
Cash dividends per share	\$.20	\$.20	\$.40	\$.40

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and the Nine Months Ended September 30, 2004 and 2003 (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
NET INCOME	\$ 2,265,149	\$ 2,592,588	\$ 3,694,079	\$ 3,066,794
UNREALIZED APPRECIATION ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense of \$200,000, \$180,000, \$1,000,000 and \$460,000, respectively)	250,000	280,000	1,550,000	700,000
COMPREHENSIVE INCOME	\$ 2,515,149	\$ 2,872,588	\$ 5,244,079	\$ 3,766,794

See notes to condensed consolidated financial statements

### THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2004 and 2003 (Unaudited)

	2004	2003
OPERATING ACTIVITIES:		
Net income	\$ 3,694,079	\$ 3,066,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion	7,549,649	8,214,200
Minority interest in earnings (losses) of subsidiaries	(19,955)	(278,490)
Deferred income taxes, long-term	25	415
Gain on disposal of assets	(278,708)	(377,577)
Realized gain on sale of other investments	(33,741)	(404,616)
Change in assets and liabilities, net of acquisitions:		
Receivables, net	(9,832,497)	(1,741,283)
Inventories	(1,856,272)	(1,729,156)
Refundable federal and state income taxes	-	562,496
Prepaid expenses	(295,764)	(860,905)
Other assets	13,317	11,909
Accounts payable and accrued liabilities	5,247,612	1,683,762
Accrued postretirement benefits	682,668	297,031
Accrued pension expense	265,648	(32,638)
Net cash provided by operating activities	\$ 5,136,061	\$ 8,411,942
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$(10,183,300)	\$ (4,521,127)

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

Proceeds from disposals of property, plant and equipment	579,157	447,824
Payment for purchases of equity investments	(589,871)	(240,849)
Proceeds from disposals of equity investments	320,967	657,726
Net purchases of subsidiaries' stock	(119,000)	-
 Net cash used for investing activities	 \$ (9,992,047)	 \$ (3,656,426)
 FINANCING ACTIVITIES:		
Proceeds from (retirement of) bank loans	\$ 6,193,033	\$ (2,086,707)
Cash dividends paid	(3,221,566)	(3,221,566)
 Net cash provided by (used for) financing activities	 \$ 2,971,467	 \$ (5,308,273)
 Net increase (decrease) in cash and cash equivalents	 \$ (1,884,519)	 \$ (552,757)
 CASH AND CASH EQUIVALENTS, beginning of year	 5,438,018	 3,909,215
 CASH AND CASH EQUIVALENTS, end of period	 \$ 3,553,499	 \$ 3,356,458
 Interest paid, net of amount capitalized	 \$644,995	 \$807,497
Income taxes paid, net of refunds	\$1,915,998	\$335,649
 See notes to condensed consolidated financial statements		

### THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

#### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 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 third quarter of 2004 and 2003 and in the first nine 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-Mixed Concrete Business" refers to our ready-mixed concrete, concrete products and sundry building materials business. Following is condensed information for each segment for the periods indicated (in thousands):

	Three Months Ended	Nine Months Ended
	9/30/04	9/30/03
	9/30/04	9/30/03

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

Sales to Unaffiliated Customers-				
Cement Business	\$17,709	\$17,722	\$39,805	\$35,581
Ready-Mixed Concrete Business	26,657	23,041	72,941	53,745
Intersegment Sales-				
Cement Business	3,224	3,387	8,254	8,256
Ready-Mixed Concrete Business	-	-	-	-
Operating Profit-				
Cement Business	2,921	3,008	5,957	5,228
Ready-Mixed Concrete Business	315	886	(831)	(1,038)
Capital Expenditures-				
Cement Business	2,610	391	5,274	1,002
Ready-Mixed Concrete Business	1,699	965	4,909	3,519
			Balance as of	
			9/30/04	12/31/03
Identifiable Assets-				
Cement Business			\$78,292	\$70,212
Ready-Mixed Concrete Business			44,444	37,798
Corporate Assets-			21,480	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 those 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 \$10,183,300 during the first nine 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 for the nine months ended September 30, 2004 and 2003:

	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
Service cost	\$343,290	\$199,716	\$ 319,570	\$133,082
Interest cost	1,221,443	809,678	876,397	684,410
Expected return on plan assets	(1,373,429)	(743,523)	-	-
Amortization of prior service costs	56,069	36,195	-	-
Recognized net actuarial gain	18,274	66,056	-	-
Unrecognized net loss	-	-	321,112	138,507
Net periodic pension expense	\$265,647	\$368,122	\$1,517,079	\$955,999

The following table presents the components of net periodic costs for the three months ended September 30, 2004 and 2003:

	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
Service cost	\$113,312	\$ 55,309	\$106,531	\$ 46,299
Interest cost	402,322	224,229	292,167	238,106

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

Expected return on plan assets	(453,337)	(205,908)	-	-
Amortization of prior service costs	18,507	10,024	-	-
Recognized net actuarial gain	6,033	18,293	-	-
Unrecognized net loss	-	-	107,045	48,186
Net periodic pension expense	\$ 86,837	\$101,947	\$505,743	\$332,591

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 September 30, 2004, we have contributed \$834,411 and anticipate contributing an additional \$225,000 to this plan in 2004 for a total of approximately \$1,060,000.

### THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

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

##### FORWARD-LOOKING STATEMENTS

Certain statements under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-Q report filed with the Securities and Exchange Commission, constitute "forward-looking statements". Except for historical information, the statements made in this report are forward-looking statements that involve risks and uncertainties. You can identify these statements by forward-looking words such as "should", "expect", "anticipate", "believe", "intend", "may", "hope", "forecast" or similar words. In particular, statements with respect to variations in future demand for our products in our market area, the timing, scope, cost and benefits of our proposed and recently completed capital improvements and expansion plans, including the resulting increase in production capacity, our forecasted cement sales, the timing and source of funds for the repayment of our line of credit, 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

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

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 nine months 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 although sales could be adversely affected by wetter conditions or an early onset of winter.

### 3RD QUARTER

Consolidated net sales for the quarter ended September 30, 2004, increased by \$3,603,381 when compared to the quarter ended September 30, 2003. Sales in our Cement Business were lower by \$12,864 while sales of Ready-Mixed Concrete Business increased \$3,616,245. The Ready-Mixed Concrete Business benefited from higher concrete sales volumes and increased billings for construction contracts.

The overall gross profit rate for the three months ended September 30, 2004 was 13.6% versus 17.2% for the three months ended September 30, 2003 primarily due to increased production costs associated with construction contracts.

Selling, general, and administrative expenses decreased by 9.8% during the third quarter of 2004 compared to the third quarter of 2003. These costs are normally considered fixed costs that do not vary significantly with changes in sales volume. The decrease is primarily due to a reduction in workers' compensation cost.

The effective tax rates for the third quarter of 2004 and 2003 were 30.1% and 32.4%, 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 and minority interest in consolidated income.

### YEAR-TO-DATE

Consolidated net sales for the nine months ended September 30, 2004 were \$112,745,787, an increase of \$23,419,838 as compared to the nine months ended September 30, 2003. Sales in our Cement Business were higher by \$4,223,962 while sales in our Ready-Mixed Concrete Business increased by \$19,195,876. Improved economic conditions resulted in higher sales volumes in both the Cement Business 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 nine months ended September 30, 2004 was 12.5% versus 14.7% for the nine months ended September 30, 2003. Gross profit rate in the Cement Business decreased 1.0% and gross profit rate in the Ready-Mixed Concrete Business decreased by 1.6%.

Selling, general, and administrative expenses decreased less than 1.0% for the first nine months of 2004 compared to the first nine months of 2003.



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

Interest expense decreased \$157,956 for the first nine months of 2004 as compared to the first nine months of 2003 primarily due to a reduction in the average amount of bank loans outstanding during the first nine months of 2004 compared to the first nine months of 2003 and the capitalization of interest during 2004.

Other, net decreased \$293,957 during the first nine months of 2004 as compared to the first nine months of 2003 primarily due to a gain on the sale of equity investments in 2003.

The effective tax rates for the nine months ended September 30, 2004 and 2003 were 29.9% and 31.9%, 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 nine months of 2004 primarily due to increases in receivables and inventories, the purchase of equipment and the payment of dividends.

In December 2003, we renewed our line of credit with our current lender 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 each 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 nine months of 2004. As of September 30, 2004, we had borrowed \$19,194,355 on the advancing term loan and \$8,898,814 on the line of credit leaving a balance available on the line of credit of \$1,101,186. The average daily interest rate we paid on the advancing term loan during the third quarter of 2004 and 2003 was 3.16% and 2.75%, respectively, and for the first nine months of 2004 and 2003 was 2.89% and 2.91%, respectively. The average daily interest rate we paid on the line of credit during the third quarter of 2004 and 2003 was 3.66% and 3.25%, respectively, and the first nine months of 2004 and 2003 was 3.39% and 3.41%, respectively. As of September 30, 2004, the applicable interest rate was 3.50% on the advancing term loan and 4.00% 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 primarily during the first half of the year when the company was building inventory due to the seasonality of our business (see Seasonality below). 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 a maximum of \$50,000,000.

### FINANCIAL CONDITION

Total assets as of September 30, 2004 were \$144,216,246, an increase of \$14,383,815 since December 31, 2003 due primarily to increases in receivables, inventories, property, plant and equipment and investments. Increases in receivables and inventories are common during the first nine months of the year due to the seasonality of our business (see Seasonality below). Retainage associated with long-term construction projects also contributed to the increase in receivables. Property, plant and equipment increased due to capital improvements (see Capital Resources below). Investments increased primarily as a result of unrealized gains on equity investments.

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

Indebtedness increased \$6,193,033 during the first nine months of 2004 primarily due to funding the increase in receivables and capital expenditures.

Stockholders' investment increased 4.4% during the first nine months of 2004 primarily due to the net income. Unrealized gain on equity investments also contributed to the increase.

### CAPITAL RESOURCES

The Company regularly invests in miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business. Capital expenditures during the first nine months of 2004 included installation of a coal firing system to fuel our precalciner kiln. This installation was substantially complete by the end of the third quarter of 2004. We also invested in routine equipment purchases during the first nine months of 2004, primarily in the Ready-Mixed Concrete Business. For the balance of the year we do not anticipate any significant additional capital investments.

Plans are underway to install a new clinker cooler in early 2005 followed by the conversion of our remaining preheater kiln to a precalciner kiln in 2006. Additional bank financing will be required to complete these projects. We do not anticipate any difficulty obtaining such financing based upon our current financial position.

### 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. 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. 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

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

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 substantially completed the installation of a coal firing system to its precalciner kiln to minimize the use of natural gas.

### 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 \$14,355,547 of equity securities as of September 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 a \$860,000 effect on comprehensive income.

The Company also has \$28,093,169 of bank loans as of September 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

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

disclosure controls and procedures are effective. There has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II. OTHER INFORMATION

#### Item 6. Exhibits

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

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

32.1 18 U.S.C. Section 1350 Certificate of the President and Chairman of the Board dated November 12, 2004.

32.2 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 12, 2004.

### 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)

Date November 12, 2004

/s/ Walter H. Wulf, Jr.  
Walter H. Wulf, Jr.  
President and  
Chairman of the Board

Date November 12, 2004

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

### EXHIBIT INDEX

Exhibit Number	Description
-------------------	-------------

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

- 31.1 Certificate of the President and Chairman of the Board pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 31.2 Certificate of the Chief Financial Officer pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 32.1 18 U.S.C. Section 1350 Certificate of the President and Chairman of the Board dated November 12, 2004.
- 32.2 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 12, 2004.