

MONARCH CEMENT CO
Form 10-Q
November 09, 2010

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended September 30, 2010, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
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

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As of November 4, 2010, there were 2,532,078 shares of Capital Stock, par value \$2.50 per share outstanding and 1,480,940 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, 2009 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 2009 filed with the Securities and Exchange Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Item 1. Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 September 30, 2010 and December 31, 2009

ASSETS	2010	2009
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$1,476,971	\$2,149,397
Receivables, less allowances of \$1,014,500 in 2010 and \$911,000 in 2009 for doubtful accounts	17,623,280	12,558,856
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$5,775,626	\$5,345,468
Work in process	1,721,160	2,050,200
Building products	5,044,117	5,225,431
Fuel, gypsum, paper sacks and other	6,532,246	7,625,573
Operating and maintenance supplies	11,446,149	11,538,788
Total inventories	\$30,519,298	\$31,785,460
Refundable federal and state income taxes	581,244	310,795
Deferred income taxes	775,000	775,000
Prepaid expenses	767,362	324,844
Total current assets	\$51,743,155	\$47,904,352
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$170,983,535 in 2010 and \$162,880,507 in 2009	86,486,120	90,817,394
DEFERRED INCOME TAXES	19,117,778	19,093,778
INVESTMENTS	17,756,907	18,419,208
OTHER ASSETS	424,186	762,945
	\$175,528,146	\$176,997,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$5,986,433	\$5,083,300
Line of credit payable	5,416,216	511,944
Current portion of advancing term loan	2,800,389	2,732,490
Accrued liabilities	6,439,601	10,900,596
Total current liabilities	\$20,642,639	\$19,228,330
LONG-TERM DEBT	9,902,605	12,096,835
ACCRUED POSTRETIREMENT BENEFITS	31,620,175	30,206,610
ACCRUED PENSION EXPENSE	12,825,904	12,250,038
STOCKHOLDERS' EQUITY:		
Capital stock, par value \$2.50 per share, one vote per share - Authorized 10,000,000 shares, Issued 2,532,078 shares at 09/30/2010 and 2,532,463 shares at 12/31/2009	\$6,330,195	\$6,331,158
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 1,480,940 shares at 09/30/2010 and 1,491,735 shares at 12/31/2009	3,702,350	3,729,337
Retained earnings	102,935,621	105,989,712
Accumulated other comprehensive loss	(12,431,343)	(12,834,343)
Total stockholders' equity	\$100,536,823	\$103,215,864

\$175,528,146 \$176,997,677

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS

For the Three Months and the Nine Months Ended September 30, 2010 and 2009 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,
	2010	2009	2010	2009
NET SALES	\$37,123,469	\$42,410,390	\$89,391,942	\$103,905,194
COST OF SALES	30,656,629	31,761,671	77,877,860	84,553,938
Gross profit from operations	\$6,466,840	\$10,648,719	\$11,514,082	\$19,351,256
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,850,693	4,015,605	11,599,979	12,170,135
Income (loss) from operations	\$2,616,147	\$6,633,114	\$(85,897)	\$7,181,121
OTHER INCOME (EXPENSE):				
Interest income	\$40,728	\$52,062	\$142,393	\$139,699
Interest expense	(156,674)	(157,277)	(437,554)	(487,742)
Gain on equity investments	-	53,568	11,839	123,133
Realized loss on impairment of equity investments	(858,787)	-	(858,787)	-
Dividend income	55,184	40,021	176,700	130,780
Other, net	6,753	200,645	669,297	175,713
	\$(912,796)	\$189,019	\$(296,112)	\$81,583
Income (Loss) before taxes	\$1,703,351	\$6,822,133	\$(382,009)	\$7,262,704
PROVISION FOR INCOME TAXES	475,000	1,875,000	575,000	2,000,000
NET INCOME (LOSS)	\$1,228,351	\$4,947,133	\$(957,009)	\$5,262,704
Less: Net Loss attributable to Noncontrolling interests	-	-	-	(48,799)
NET INCOME (LOSS) ATTRIB. TO COMPANY	\$1,228,351	\$4,947,133	\$(957,009)	\$5,311,503
RETAINED EARNINGS, beg. of period	102,878,787	104,397,360	105,989,712	104,958,556
Less cash dividends	925,566	925,565	1,851,131	1,851,131
Less purchase and retirement of treasury stock	245,951	-	245,951	-
RETAINED EARNINGS, end of period	\$102,935,621	\$108,418,928	\$102,935,621	\$108,418,928
Basic earnings (losses) per share	\$0.31	\$1.23	\$(0.24)	\$1.32
Cash dividends per share	\$0.23	\$0.23	\$0.46	\$0.46

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months and the Nine Months Ended September 30, 2010 and 2009 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,
	2010	2009	2010	2009
NET INCOME (LOSS)	\$1,228,351	\$4,947,133	\$(957,009)	\$5,262,704
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense (benefit) of \$(84,000), \$1,276,000, \$(528,000) and \$1,528,000, respectively)	(124,787)	1,917,568	(788,948)	2,295,133

LESS: RECLASSIFICATION ADJUSTMENT
FOR

REALIZED GAINS (LOSSES) INCLUDED IN NET INCOME (net of deferred tax expense (benefit) of \$(344,000), \$20,000, \$(340,000), and \$48,000, respectively)	(514,787)	33,568	(506,948)	75,133
POSTRETIREMENT LIABILITY (net of deferred tax expense of \$-0-, \$-0-, \$-0- and \$-0-, respectively)	-	-	685,000	-
COMPREHENSIVE INCOME (LOSS)	\$1,618,351	\$6,831,133	\$(554,009)	\$7,482,704

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Nine Months Ended September 30, 2010 and 2009 (Unaudited)

	2010	2009
OPERATING ACTIVITIES:		
Net income (loss)	\$(957,009)	\$5,262,704
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	8,766,192	9,136,307
Deferred income taxes, long-term	164,000	(38,000)
Gain on disposal of assets	(29,688)	(66,087)
Realized gain on sale of equity investments	(11,839)	(123,133)
Realized loss on impairment of equity investments	858,787	-
Gain on disposal of other assets	(700,000)	-
Postretirement benefits and pension expense	2,674,431	1,841,364
Change in assets and liabilities:		
Receivables, net	(5,064,425)	(5,946,178)
Inventories	1,266,161	(2,820,449)
Refundable income taxes	(270,449)	27,102
Prepaid expenses	(442,518)	(270,747)
Other assets	1,692	19,697
Accounts payable and accrued liabilities	(990,587)	1,031,913
Net cash provided by operating activities	\$5,264,748	\$8,054,493
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$(4,836,923)	\$(6,857,737)
Proceeds from disposals of property, plant and equipment	52,618	118,942
Proceeds from disposals of other assets	700,000	-
Payment for purchases of equity investments	(860,134)	(3,530,703)
Proceeds from disposals of equity investments	205,487	1,460,489
Decrease in short-term investments, net	-	2,100,000
Net cash used for investing activities	\$(4,738,952)	\$(6,709,009)
FINANCING ACTIVITIES:		
Increase in line of credit, net	\$4,904,271	\$5,253,788
Payments on bank loans	(2,040,889)	(1,976,177)
Payments on other long-term debt	(85,441)	(216,975)
Cash dividends paid	(3,702,262)	(3,702,262)
Purchases of noncontrolling interests	-	(660,065)
Purchase of treasury stock	(273,901)	-
Net cash used for financing activities	\$(1,198,222)	\$(1,301,691)
Net increase (decrease) in cash and cash equivalents	\$(672,426)	\$43,793
Cash and Cash Equivalents, beginning of year	2,149,397	3,111,509
Cash and Cash Equivalents, end of period	\$1,476,971	\$3,155,302
Interest paid, net of amount capitalized	\$442,149	\$496,676
Income taxes paid, net of refunds	\$1,617	\$(72,660)
Capital equipment additions included in accounts payable	\$32,335	\$289,842

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH
CEMENT
COMPANY AND
SUBSIDIARIES
NOTES TO THE
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
September 30, 2010
and
2009 (Unaudited),
and December 31,
2009

1. For a summary of accounting policies, the reader should refer to Note 1 of the consolidated financial statements included in our Company's most recent annual report on Form 10-K.
2. Certain reclassifications have been made to the 2009 financial statements to conform to the current year presentation. These reclassifications had no effect on net earnings.
3. Our Ready-Mixed Concrete Business includes precast concrete construction which involve long-term and short-term contracts. Long-term contracts relate to specific projects with terms in excess of one year from the contract date. Short-term contracts for specific projects are generally of three to six months in duration. The majority of the long-term contracts will allow only scheduled billings and contain retainage provisions under which 5% to 10% of the contract invoicing may be withheld by the customer pending project completion. As of September 30, 2010, the amount of billed retainage which is included in accounts receivable was approximately \$145,000, all of which is expected to be collected within one year. The amount of billed retainage which was included in accounts receivable at December 31, 2009 was approximately \$360,000.

We recognize revenues under the percentage of completion method of accounting using cost-to-cost measures. Revenues from contracts using the cost-to-cost measures of completion are recognized based on the ratio of contract costs incurred to date to total estimated contract costs. The amount of unbilled revenue in accounts receivable was approximately \$735,000 and \$780,000 at September 30, 2010 and December 31, 2009, respectively. Unbilled revenue contained approximately \$44,000 and \$525,000 of not-currently-billable retainage at September 30, 2010 and December 31, 2009, respectively, which is expected to be collected within one year.

4. As of September 30, 2010, the amount of accounts payable related to property, plant and equipment was \$32,335 compared to the amount as of December 31, 2009 which was \$748,479.

Depreciation, depletion and amortization related to manufacturing operations are recorded in Cost of Sales, those related to general operations are recorded in Selling, General and Administrative Expenses, and those related to non-operational activities are in Other, net on the Condensed Consolidated Statements of Income (Loss) and Retained Earnings.

5. We did not incur a temporary LIFO liquidation gain for the nine months and the three months ended September 30, 2010. For the nine months and the three months ended September 30, 2009, we restored the \$.1 million temporary LIFO liquidation created by reductions in finished cement and work in process inventory in the first six months of 2009. The temporary LIFO liquidation gain was deferred as a component of accrued liabilities.

6. In 1996, our Board of Directors authorized the purchase, through open market transactions, of up to 400,000 shares of our Company's common stock. The authorization has no expiration. Management was given discretion to determine the number and pricing of the shares to be purchased as well as the timing of any such purchases. The Company repurchased and retired 11,180 shares at a cost of \$273,901 in isolated, open-market transactions during the nine months ending September 30, 2010 under this program. No shares were repurchased during 2009. As of September 30, 2010, 113,152 shares of our common stock remained under the share repurchase authorization at management's discretion. Cash on hand has been used to fund all stock repurchases under the program.

7. 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 2010 and 2009 include cash and cash equivalents, refundable income taxes, deferred income taxes, investments and other assets. Following is information for each line for the periods indicated:

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	Cement Business	Ready- Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Three Months Ended 9/30/10				
Sales to unaffiliated customers	\$ 15,357,098	\$ 21,766,371	\$ -	\$ 37,123,469
Intersegment sales	4,328,760	14,667	(4,343,427)	-
Total net sales	\$ 19,685,858	\$ 21,781,038	\$ (4,343,427)	\$ 37,123,469
Income (Loss) from operations	\$ 3,094,501	\$ (478,354)		\$ 2,616,147
Other expense, net				(912,796)
Income before income taxes				\$ 1,703,351
Capital Expenditures	\$ 337,751	\$ 505,857		\$ 843,608
For the Three Months Ended 9/30/09				
Sales to unaffiliated customers	\$ 17,982,074	\$ 24,428,316	\$-	\$ 42,410,390
Intersegment sales	3,940,641	-	(3,940,641)	-
Total net sales	\$ 21,922,715	\$ 24,428,316	\$ (3,940,641)	\$ 42,410,390
Income from operations	\$ 4,980,605	\$ 1,652,509		\$ 6,633,114
Other income, net				189,019
Income before income taxes				\$ 6,822,133
Capital Expenditures	\$ 1,469,980	\$ 985,253		\$ 2,455,233
For the Nine Months Ended 9/30/2010				
Sales to unaffiliated customers	\$ 36,188,214	\$ 53,203,728	\$-	\$ 89,391,942
Intersegment sales	11,000,943	14,667	(11,015,610)	-
Total net sales	\$ 47,189,157	\$ 53,218,395	\$ (11,015,610)	\$ 89,391,942
Income (Loss) from operations	\$ 4,109,578	\$ (4,195,475)		\$ (85,897)
Other expense, net				(296,112)
Loss before income taxes				\$ (382,009)
Capital Expenditures	\$ 1,493,046	\$ 2,627,734		\$ 4,120,780
For the Nine Months Ended 9/30/09				
Sales to unaffiliated customers	\$ 43,462,640	\$ 60,442,554	\$-	\$ 103,905,194
Intersegment sales	9,485,585	-	(9,485,585)	-
Total net sales	\$ 52,948,225	\$ 60,442,554	\$ (9,485,585)	\$ 103,905,194
Income from operations	\$ 6,509,648	\$ 671,473		\$ 7,181,121
Other income, net				81,583
Income before income taxes				\$ 7,262,704
Capital Expenditures	\$ 4,356,039	\$ 2,569,626		\$ 6,925,665
Balance as of 9/30/10				
Identifiable Assets	\$ 93,015,393	\$ 42,380,667		\$ 135,396,060
Corporate Assets				40,132,086
				\$ 175,528,146
Balance as of 9/30/09				
Identifiable Assets	\$ 98,596,663	\$ 43,866,244		\$ 142,462,907
Corporate Assets				41,423,960
				\$ 183,886,867

8. The Company defines fair value as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company measures fair value using the following fair value hierarchy which is based on three levels of inputs intended to maximize the use of observable inputs and minimize the use of unobservable inputs:

Level 1 - quoted prices in active markets for identical assets or liabilities.

Level 2 - observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in 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 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents, receivables, accounts payable and long-term debt have carrying values that approximate fair values. Equity securities for which the Company has no immediate plan to sell but that may be sold in the future are classified as available for sale. If the fair value of the equity security is readily determinable, it is carried at fair value and unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Realized gains and losses, based on the specifically identified cost of the security, are included in net income. The Company's valuation techniques used to measure the fair value of its marketable equity securities were derived from quoted prices in active markets for identical assets. Equity securities whose fair value is not readily determinable are carried at cost unless the Company is aware of significant adverse effects which have impaired the investments. Investments that are recorded at cost are evaluated quarterly for events that may adversely impact their fair value.

The aggregate amount of equity securities carried at cost, for which the Company has not elected the fair value option, was \$2.4 million as of September 30, 2010. The remaining \$15.4 million in equity security investments are stated at fair value. As of December 31, 2009, the aggregate amount of equity securities carried at cost was \$2.0 million and the remaining \$16.4 million in equity security investments were stated at fair value. The following table summarizes the bases used to measure certain assets at fair value on a recurring basis in the consolidated balance sheets:

		Fair Value at Reporting Date Using:		
		Quoted Prices		
		in Active	Significant	
		Markets for	Other	Significant
		Identical	Observable	Unobservable
		Assets	Inputs	Input
Assets:		(Level 1)	(Level 2)	(Level 3)
9/30/10				
Available-for-sale equity securities				
Cement industry	\$ 7,168,841	\$ 7,168,841	\$ -	\$ -
General building materials industry	3,015,995	3,015,995	-	-
Oil and gas refining and marketing industry	4,101,075	4,101,075	-	-
Residential construction industry	1,064,384	1,064,384	-	-
Total assets measured at fair value	\$ 15,350,295	\$ 15,350,295	\$ -	\$ -
12/31/09				
Assets:				
Available-for-sale equity securities				
Cement industry	\$ 7,910,270	\$ 7,910,270	\$ -	\$ -
General building materials industry	4,091,932	4,091,932	-	-

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Oil and gas refining and marketing industry	3,410,106	3,410,106	-	-
Residential construction industry	1,020,500	1,020,500	-	-
Total assets measured at fair value	\$ 16,432,808	\$ 16,432,808	\$ -	\$ -

There is not a reconciliation (roll forward) of the beginning and ending balances for Level 3 presented since the Company does not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during any of the periods reported in the table above. The Company has no liabilities in either year requiring remeasurement to fair value on a recurring basis in the consolidated balance sheets. The Company has no additional assets or liabilities in either year requiring remeasurement to fair value on a non-recurring basis in the consolidated balance sheets.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2010:

9/30/10	Less than 12 Months		12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
Available-for-sale equity securities	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Cement industry	\$ 694,080	\$ 51,701	\$ -	\$ -	\$ 694,080	\$ 51,701
Oil & gas refining & marketing industry	268,125	1,484	-	-	268,125	1,484
Residential construction industry	457,640	86,057	-	-	457,640	86,057
Total	\$ 1,419,845	\$ 139,242	\$ -	\$ -	\$ 1,419,845	\$ 139,242

12/31/09	Less than 12 Months		12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
Available-for-sale equity securities	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Cement industry	\$ 14,600	\$ 3,516	\$ -	\$ -	\$ 14,600	\$ 3,516
Oil & gas refining & marketing industry	952,168	114,528	-	-	952,168	114,528
Residential construction industry	381,580	32,198	105,300	12,724	486,880	44,922
Total	\$ 1,348,348	\$ 150,242	\$ 105,300	\$ 12,724	\$ 1,453,648	\$ 162,966

Impairment Analysis

The Company owns stock in two privately-owned companies accounted for by the cost method; one in the brick industry and the other in the ethanol production industry. These investments were evaluated at September 30, 2010 and at December 31, 2009 for impairment. The evaluation of the ethanol production industry investment for each period's impairment analysis was based on specific identification of shares held and quoted prices in markets that are not active and no impairment was identified. Since there is not an active market for the brick industry investment, the Company relied on a discounted future net cash flow valuation of the brick company for each period's impairment analysis to determine if the average cost of shares were impaired and no impairment was identified. As a result of those evaluations, the Company did not consider these cost-method investments to be impaired at September 30, 2010 or December 31, 2009. The aggregate cost of the Company's cost-method investments totaled \$2.4 million and \$2.0 million at September 30, 2010 and December 31, 2009, respectively.

September 30, 2010

The Company's available-for-sale equity securities carried at fair value were evaluated for impairment by comparing the specifically identified cost of each purchase to market price. As a result of these evaluations, the Company identified \$.9 million in other-than-temporary impairments in investments in the general building materials industry resulting in a recognized loss in earnings of equity investments. The fair value of those investments then became the new cost basis. The Company did identify some specific purchases of available-for-sale equity securities that were temporarily impaired resulting in the recognition of unrealized losses (see table above). When the Company evaluated impairment by comparing the specifically identified cost of each purchase to market price as of October 13, 2010, temporary impairments of these securities remained essentially unchanged from their September 30, 2010 temporary impairments. The Company evaluated the near-term prospects of all of the issuers in relation to the severity of the impairments. The largest impairments were in the residential construction industry investment (fair value was approximately 15.8% less than cost) and in the cement industry (fair value was approximately 6.9% less than cost) as of September 30, 2010. The residential construction industry investment has been continuously impaired for two quarters and the cement industry investment has been continuously impaired primarily for two quarters. Based on its evaluation, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2010.

December 31, 2009

Due to continued adverse economic conditions, the Company's investments in available-for-sale equity securities carried at fair value were evaluated for impairment by comparing the specifically identified cost of each purchase to market price. As a result of these evaluations, the Company identified \$.5 million in other-than-temporary impairments in an investment in the common stock of a company that produces construction aggregates, construction materials and cement resulting in a recognized loss in earnings of equity investments. The fair value of this impaired investment then became the new cost basis. The Company also identified some specific purchases of available-for-sale equity securities that were temporarily impaired resulting in the recognition of unrealized losses (see table above). These unrealized losses relate to investments in the common stock of two companies, one in the oil and gas refinery and marketing industry and another whose core business is in the residential construction industry. When the Company evaluated the impairments by comparing the specifically identified cost of each purchase to market price as of February 20, 2010, these securities had recovered substantially all of their December 31, 2009 temporary impairments. The Company evaluated the near-term prospects of all of the issuers in relation to the severity of the impairments (fair value was approximately 8 percent less than cost in the residential construction industry investment and approximately 11 percent less than cost in the oil and gas refinery and marketing industry as of December 31, 2009) and the duration of the impairments (less than three months in both investments). Based on that evaluation, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2009.

Investment Results - - The investment results for September 30, 2010 and December 31, 2009 are as follows:

	9/30/10	12/31/09
Fair value of investments	\$ 17,756,907	\$ 18,419,208
Cost of investments	13,816,907	14,009,208
Unrealized gain	\$ 3,940,000	\$ 4,410,000
Unrealized gain recorded in equity:		
Investments carried at fair value	\$ 2,364,000	\$ 2,646,000
Deferred income taxes	1,576,000	1,764,000
	\$ 3,940,000	\$ 4,410,000

Investment related cash flow information for September 30, 2010 and September 30, 2009 are as follows:

	9/30/10	09/30/09
Proceeds from sale of equity securities	\$ 205,487	\$ 1,460,489

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Realized gain on equity securities	\$11,839	\$123,133
Realized losses due to other-than-temporary impairment of equity securities	\$(858,787)	\$-

9. The following table presents the components of net periodic pension and postretirement benefit costs allocated to Cost of Sales and Selling, General and Administrative expenses for the nine months ended September 30, 2010 and 2009:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Service cost	\$ 501,735	\$ 1,265,959	\$ 409,177	\$ 402,827
Interest cost	1,547,487	4,099,310	1,401,364	1,371,150
Less: Expected return on plan assets	1,294,002	4,356,624	-	-
Amortization of prior service cost	82,484	296,466	-	-
Recognized net actuarial loss	651,490	428,325	-	-
Unrecognized net loss	-	-	540,681	598,152
Net periodic expense	\$ 1,489,194	\$ 1,733,436	\$ 2,351,222	\$ 2,372,129

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 three months ended September 30, 2010 and 2009:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
Service cost	\$ 167,245	\$ 421,986	\$ 136,392	\$ 135,500
Interest cost	515,829	1,366,437	467,122	461,217
Less: Expected return on plan assets	431,334	1,452,208	-	-
Amortization of prior service cost	27,495	98,822	-	-
Recognized net actuarial loss	217,163	142,775	-	-
Unrecognized net loss	-	-	180,227	201,202
Net periodic expense	\$ 496,398	\$ 577,812	\$ 783,741	\$ 797,919

As previously disclosed in our financial statements for the year ended December 31, 2009, Monarch expects to contribute approximately \$2,335,000 to the pension fund in 2010. As of September 30, 2010, we have contributed approximately \$910,000 and anticipate contributing an additional \$1,425,000 to this plan in 2010 for a total of \$2,335,000.

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, 2009, Monarch expects expenditures of approximately \$1,750,000 for this plan in 2010. As of September 30, 2010, we have contributed about \$940,000 and anticipate contributing an additional \$810,000 on this plan in 2010 for a total of \$1,750,000.

10. Other, net contains miscellaneous nonoperating income (expense) items other than interest income, interest expense, gains on equity investments, realized loss on impairment of equity investments, and dividend income. Material items in Other, net during the first nine months of 2010 included a \$700,000 gain related to the sale of a non-operating asset. There were no material items in Other, net during the three months ending September

30, 2010. In the first nine months of 2009, material items in Other, net included income from oil properties of \$68,000 and a \$228,000 gain resulting from the settlement of a contingent liability related to the acquisition of subsidiary stock. The \$228,000 gain related to the settlement of a contingent liability was a material item included in Other, net for the three months ending September 30, 2009.

11. 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 4,022,902 and 4,020,352 in the first nine months and third quarter of 2010, respectively. The weighted average number of shares outstanding was 4,024,198 in the first nine months and third quarter of 2009. The Company has no common stock equivalents and therefore, does not report diluted earnings per share.
12. The Company 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 2006. The Company believes it is not subject to any significant tax risk. The Company does not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any interest expenses recognized during the nine months ended September 30, 2010.

As a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010, we will no longer be able to claim an income tax deduction related to prescription drug benefits provided to retirees and reimbursed under the Medicare Part D retiree drug subsidy beginning in 2013. This resulted in a \$685,000 charge to income tax provision during the first quarter of 2010.

13. Recently Adopted Accounting Standards

In December 2008, the FASB issued an amendment to Accounting Standards Codification (ASC) 715-20, "Compensation – Retirement Benefits – Defined Benefit Plans – General", which requires enhanced disclosures regarding Company benefit plans. Disclosure regarding plan assets should include discussion about how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure plan assets and significant concentrations of risk within plan assets. These amendments to ASC 715-20 are effective for fiscal years ending after December 15, 2009, and earlier application is permitted. Prior year periods presented for comparative purposes are not required to comply. For the Company, the amendments to ASC 715-20 were effective beginning December 31, 2009 and their adoption had no material impact on the Company's financial position, results of operations or cash flows.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-02, "Accounting and Reporting for Decreases in Ownership of a Subsidiary--a Scope Clarification", which clarifies who the scope of the decrease in ownership provisions of the Subtopic and related guidance apply to and expands the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of Subtopic 810-10. The amendments in this Update were effective for the Company beginning January 1, 2010 and their adoption did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures About Fair Value Measurements", which amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. Reporting entities must make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The ASU also provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. ASU 2010-06 is effective for annual or interim reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010 and for interim periods within those fiscal years. For the Company, ASU 2010-06 was effective beginning January 1,

2010. The adoption of ASU 2010-06 did not have a material impact on our disclosures or our consolidated financial statements.

In February, 2010, the FASB issued ASU No. 2010-09, "Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements". This ASU provides amendments to Subtopic 855-10 to clarify that SEC filers are required to evaluate subsequent events through the date that the financial statements are issued, but are not required to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance for the Company and its adoption did not have a material impact on the Company's consolidated financial statements.

Effect of Authoritative Accounting Guidance Not Yet Adopted

There are currently no accounting standards that have been issued that are expected to have a significant impact on the Company's financial position, results of operations and cash flows upon adoption.

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, the timing and/or collectability of retainage, 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 of weather on our business;
- the effect of environmental and other government regulations;
- the availability of credit at reasonable prices; and
- the effect of federal and state funding on demand for our products.

We have described under the caption "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, and in other reports that we file with the SEC from time to time, additional factors that could cause actual results to be materially different from those described in the forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement, which speak only as of the date they were made.

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, 2009 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.

The slowdown in residential construction suppressed the demand for our cement and ready-mixed concrete during 2009 and 2010. The continued slowdown in residential construction and the additional slowdown in commercial construction have impacted the demand for our cement and ready-mixed concrete. Recent economic forecasts from the Portland Cement Association (PCA) indicate the construction industry is likely to remain weak for another year or more. This weakness in the industry is putting downward pressure on the pricing of cement and ready-mixed concrete which adversely impacts revenues, gross margins, and net profits. In addition, sales of cement and ready-mixed concrete were adversely impacted by a longer period of cold weather for the first quarter of 2010 as compared to the same period in 2009. These conditions delayed construction projects resulting in reduced sales of cement and concrete.

Based on sales forecasts and inventory levels at the beginning of 2009 and again at the beginning of 2010, the Company elected to reduce cement production in the first quarter both years and to undertake plant repairs and maintenance, largely using our own production personnel. The Company normally performs repairs and maintenance every winter, but the decision to use employees or outside contractors is determined by anticipated sales demand, by whether we have the internal expertise and by our inventory target levels. During the remainder of the year, the Company evaluates inventory levels and sales forecasts to determine if reductions in cement production are warranted and can be scheduled around maintenance needs. Our Cost of Sales includes certain fixed costs that do not vary with the volume of production as well as costs which generally vary with production levels. We have an extremely limited ability to reduce these fixed costs in the short term. As a result, lower production levels which result from extended shutdowns are expected to have a negative impact on our gross profit margins. The shutdowns in 2009 and 2010 had an adverse impact on our gross profit margins.

RESULTS OF OPERATIONS - THIRD QUARTER OF 2010 COMPARED TO THIRD QUARTER OF 2009

Consolidated net sales for the three months ended September 30, 2010, decreased by \$5.3 million when compared to the three months ended September 30, 2009. Sales in our Cement Business were lower by \$2.6 million and sales in our Ready-Mixed Concrete Business were lower by \$2.7 million. Cement Business sales decreased \$2.5 million due to a 13.7% decrease in volume sold and decreased \$.1 million due to price decreases. Ready-mixed Concrete Business sales decreased \$2.7 million due to a decline in construction contract sales of \$2.7 million. A \$.4 million increase in ready-mixed concrete sales was offset by a \$.4 million decrease in sales of brick, block, aggregates and other sundry items.

Consolidated cost of sales for the three months ended September 30, 2010, decreased by \$1.1 million when compared to the three months ended September 30, 2009. Cost of sales in our Cement Business were lower by \$.6 million and cost of sales in our Ready-Mixed Concrete Business were lower by \$.5 million. The Cement Business cost of sales decrease of \$1.5 million, primarily due to the 13.7% decrease in volume sold, was offset primarily due to higher costs of clinker production resulting from reduced kiln operations. Ready-Mixed Concrete Business cost of sales increased \$.6 million due to the 11.7% increase in cubic yards of ready-mixed concrete sold. The remaining change is primarily due to a decrease of \$1.1 million in cost of sales for construction contracts related to the \$2.7

million decline in construction contract sales.

Our overall gross profit rate for the three months ended September 30, 2010 was 17.4% versus 25.1% for the three months ended September 30, 2009. As a result of the above sales and cost of sales factors, the gross profit rate for the Cement Business decreased from 38.3% for the three months ended September 30, 2009 to 31.7% for the three months ended September 30, 2010. The gross profit rate for the Ready-Mixed Concrete Business declined from 15.4% for the three months ended September 30, 2009 to 7.4% for the three months ended September 30, 2010.

Selling, general, and administrative expenses decreased by \$.2 million for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. These costs are normally considered fixed costs that do not vary significantly with changes in sales volume.

Other, net contains miscellaneous nonoperating income (expense) items other than interest income, interest expense, gains on equity investments, realized loss on impairment of equity investments, and dividend income. There were no material items in Other, net during the three months ending September 30, 2010. The \$228,000 gain related to the settlement of a contingent liability was a material item included in Other, net for the three months ending September 30, 2009.

The Company recorded a \$.9 million impairment loss on equity investments in the general building materials industry due to impairments that were other-than-temporary during the three months ending September 30, 2010. No investments were deemed other-than-temporarily impaired during the three months ending September 30, 2009.

The effective tax rates for the three months ended September 30, 2010 and 2009 were 27.9% and 27.5%, 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 and valuation allowance. Taxes for the current year are estimated based on prior years' effective tax rates.

RESULTS OF OPERATIONS - FIRST NINE MONTHS OF 2010 COMPARED TO THE FIRST NINE MONTHS OF 2009

Consolidated net sales for the nine months ended September 30, 2010, decreased by \$14.5 million when compared to the nine months ended September 30, 2009. Sales in our Cement Business were lower by \$7.3 million and sales in our Ready-Mixed Concrete Business were lower by \$7.2 million. Cement Business sales decreased \$6.8 million due to a 15.6% decrease in volume sold and decreased \$.5 million due to price decreases. Ready-mixed concrete sales increased \$1.5 million as a result of a 4.7% increase in cubic yards sold and declined \$.2 million due to price decreases for a net sales increase of \$1.3 million. The Ready-mixed Concrete Business increased sales in brick, block, aggregates and other sundry items by \$.8 million. This segment's increases were more than offset by declines in construction contract sales of \$9.3 million for a net decrease in sales of \$7.2 million.

Consolidated cost of sales for the nine months ended September 30, 2010, decreased by \$6.7 million when compared to the nine months ended September 30, 2009. Cost of sales in our Cement Business were lower by \$4.2 million and cost of sales in our Ready-Mixed Concrete Business were lower by \$2.5 million. Cement Business cost of sales decreased \$4.8 million due to the 15.6% decrease in volume sold. This decrease was partially offset by higher costs of clinker production resulting from reduced kiln operations. Ready-Mixed Concrete Business cost of sales decreased \$5.3 million primarily a result of the \$9.3 million decline in construction contract sales. The cost of sales decrease was offset \$2.8 million by ready-mixed concrete increases of \$1.8 million due to the 4.7% increase in cubic yards sold in addition to a \$1.0 million increase in the cost of sales for brick, block and other sundry items for resale.

Our overall gross profit rate for the nine months ended September 30, 2010 was 12.9% versus 18.6% for the nine months ended September 30, 2009. The gross profit rate for the Cement Business was 25.9% and 28.6% for the nine months ended September 30, 2010 and September 30, 2009, respectively. The gross profit rate for the

Ready-Mixed Concrete Business declined from 11.5% for the nine months ended September 30, 2009 to 4.0% for the nine months ended September 30, 2010.

Selling, general, and administrative expenses decreased by \$.6 million for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. These costs are normally considered fixed costs that do not vary significantly with changes in sales volume. The 4.7% decline was primarily due to a decline in administrative legal and professional expenses of \$.1 million, a \$.2 million decline in insurance expenses related to general liability, property damage and umbrella policies, and a \$.2 million decline in bad debts expense during the first nine months of 2010 compared to the first nine months of 2009.

Material items in Other, net during the first nine months of 2010 included a \$700,000 gain related to the sale of a non-operating asset. In the first nine months of 2009, material items in Other, net included income from oil properties of \$68,000 and a \$228,000 gain resulting from the settlement of a contingent liability related to the acquisition of subsidiary stock.

The Company recorded a \$.9 million impairment loss on equity investments in the general building materials industry due to impairments that were other-than-temporary during the first nine months ending September 30, 2010. No investments were deemed other-than-temporarily impaired during the first nine months ending September 30, 2009.

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 and valuation allowance. Taxes for the current year are estimated based on prior years' effective tax rates. The effective tax rates for the nine months ended September 30, 2010 and 2009 were (150.5)% and 27.5%, respectively. The change in the effective tax rate for 2010 as compared with 2009 was primarily due to an income tax charge of \$685,000 recorded during the first quarter of 2010 as a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010. As a result of this legislation, beginning in 2013, we will no longer be able to claim an income tax deduction related to prescription drug benefits provided to retirees and reimbursed under the Medicare Part D retiree drug subsidy. Without the income tax charges related to postretirement benefits, our effective tax rate for the nine months ended September 30, 2010 would have been 28.8%.

LIQUIDITY

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. September 30, 2010 and December 31, 2009, cash equivalents consisted primarily of money market investments and repurchase agreements with various banks which are not guaranteed by the FDIC. The FDIC's temporary increase to \$250,000 in the standard maximum deposit insurance amount (SMDIA) through December 31, 2013 has been permanently raised to \$250,000 through the Dodd-Frank Wall Street Reform and Consumer Protection Act to fully guarantee all deposit accounts. Financial institutions participating in the FDIC's Transaction Account Guarantee Program fully guarantee noninterest-bearing transaction accounts for the entire amount in the account through December 31, 2010.

We are able to meet our cash needs primarily from a combination of operations and bank loans.

Net cash provided by operating activities totaled \$5.3 million and \$8.1 million for the nine months ended September 30, 2010 and September 30, 2009, respectively. The \$2.8 million decrease in the cash provided by operating activities for the first nine months of 2010 compared to the first nine months of 2009 is primarily due to changes in net income (loss), receivables, inventories, accrued postretirement benefits, gains on the disposal of other assets and the noncash realized loss on the impairment of equity investments. Net income decreased \$6.2 million from 2009 to 2010 primarily due to the decline in overall sales volume combined with the decline in gross profit margins. The net loss for the first nine months of 2010 was \$.7 million less due to the gain on the disposal of other

assets. A \$.9 million non-cash adjustment for the other-than-temporary loss on impairment of other investments was realized in the first nine months of 2010 while none were recognized in the corresponding period of 2009. Receivables increased more in the first nine months of 2009 than the first nine months of 2010 despite the greater increase in September sales in 2010 over December sales in 2009 compared to the increase in September sales in 2009 over December sales in 2008. The higher increase in 2009 correlates to the initial weakening of the economy. The net result of production levels and sales volumes in the first nine months of 2010 and 2009 resulted in inventories decreasing \$1.3 million in the first nine months of 2010 while inventories increased \$2.8 million in the first nine months of 2009. Refundable income taxes increased \$.3 million during the first nine months of 2010 over the first nine months of 2009 due to the net loss incurred during 2010. Accrued postretirement benefits liability increased \$.7 million in the first nine months of 2010 over the first nine months of 2009 as a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010 which changed the deductibility of prescription drug benefits provided to retirees and reimbursed under the Medicare Part D retiree drug subsidy.

Net cash used for investing activities totaled \$4.7 million in the first nine months of 2010 while \$6.7 million was used in the first nine months of 2009 resulting in a \$2.0 million decrease in net cash used for investing activities for the first nine months of 2010 compared to the first nine months of 2009. \$2.7 million more in cash was used for the purchase of equity security investments in the first nine months of 2009 than in the corresponding period of 2010. The disposal of short-term investments and disposals of equity investments in 2009 provided \$2.1 million and \$1.5 million in cash, respectively, while equity investments and other assets were disposed of in 2010 to provide \$.2 million and \$.7 million in cash, respectively. The acquisition of property, plant and equipment was approximately \$2.0 million higher in 2009 than the corresponding period in 2010.

Net cash used for financing activities totaled \$1.2 million and \$1.3 million for the nine months ending September 30, 2010 and September 30, 2009, respectively. In 2009, the Company purchased \$.7 million of noncontrolling interests while in 2010 the Company purchased and retired \$.3 million of treasury stock.

In December 2009, Monarch entered into an amendment to the loan agreement with its current lender, Bank of Oklahoma, N.A., to, among other things, renew and modify the terms of Monarch's term loan and revolving line of credit. Monarch's current unsecured credit commitment consists of a \$17.8 million term loan maturing December 31, 2014 and a \$15.0 million line of credit maturing December 31, 2010. Under the amended loan agreement, interest on the line of credit varies with the lender's national prime rate less 0.50% with a 3.50% interest rate minimum or floor. Interest rates on the Company's term loan were not changed by the amendment. 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 2010.

For 2009 and 2010, interest on the Company's term loan is variable and is based on the lender's national prime rate less 0.75% with a 3.00% interest rate minimum or floor. Prior to the renewal, interest on the line of credit varied with the lender's national prime rate less 1.25% with a 2.5% interest rate minimum or floor for 2009. As of September 30, 2010, we had borrowed \$12.6 million on the term loan and \$5.4 million on the line of credit leaving a balance available on the line of credit of \$9.6 million. The annual weighted average interest rate we paid on the term loan during the third quarter and first nine months of 2010 and 2009 was 3.25%. The annual weighted average interest rate we paid on the line of credit during the third quarter and first nine months of 2010 was 3.50% and during the third quarter and first nine months of 2009 was 2.75%. As of September 30, 2010, the applicable interest rate was 3.25% on the term loan and 3.50% on the line of credit. The term loan was used to help finance the expansion project at our cement manufacturing facility. The line of credit was used during the year to fund temporary operating expenses. Our Board of Directors has given management the authority to borrow a maximum of \$50 million. We have not discussed additional financing with any banks or other financial institutions; therefore, no assurances can be given that we will be able to obtain this additional borrowing on favorable terms, if at all.

The Company has projects in the planning and design phases in addition to projects already in progress. For discussion of these projects, see second paragraph under "Capital Resources" below. We anticipate capital

expenditures for 2010 to be lower than 2009 levels and we do not anticipate the need for additional bank financing other than that available under the existing line of credit for the foreseeable future.

For several years the Company has paid a dividend in January, March, June and September. At the December 2009 Board of Directors' meeting, the Board declared two dividends, payable in January and March, each at \$.23 per share. Under the terms and conditions of our loan agreement, the Company's ability to pay dividends is subject to its satisfaction of a requirement to maintain a tangible net worth of \$90 million and an adjusted tangible net worth, which is tangible net worth before other comprehensive income, of \$95 million. The Company was in compliance with these requirements at the end of the first nine months of 2010. The minimum net worth requirements could impact the Company's ability to pay dividends in the future. Although dividends are declared at the Board's discretion and could be impacted by the minimum net worth requirements of the Company's loan agreement, we project future earnings will support the continued payment of dividends at the current level for the foreseeable future.

The Company has been required to make a pension contribution each of the past three years. In 2009 and 2008, the Company contributed approximately \$2.1 million and \$1.4 million, respectively, to the pension fund. No estimates of required pension payments have been asked for or made beyond 2010. The decline in the bond and stock markets in 2008 significantly reduced the value of our pension funds at December 31, 2008. By December 31, 2009, actual returns on plan assets had increased the value of our pension funds enough to recover approximately half of the prior year reductions. Based on the pension laws currently in effect, any resulting increases in minimum funding requirements could cause a negative impact to our liquidity. See Note 9 in Notes to the Condensed Consolidated Financial Statements for disclosures about 2010 pension contributions.

FINANCIAL CONDITION

Total assets as of September 30, 2010 were \$175.5 million, a decrease of \$1.5 million since December 31, 2009. Sales were higher in the month of September 2010 compared to the month of December 2009 which led to a \$5.1 million increase in receivables. From year-to-year the weather conditions in these two months can vary significantly which impacts sales and resulting receivables at month-end. Increases in receivables are common during the first nine months of the year due to the seasonality of our business (see "Seasonality" below).

Our quarterly estimated tax payments are based on annualized income and in 2009 we overpaid taxes and are due a refund. During the first nine months of 2010, we experienced net losses which resulted in an increase in refundable income taxes of \$.3 million over the prior year. Prepaid expenses increased by \$.4 million from December 31, 2009 to September 30, 2010 due to the timing of insurance payments. Other assets declined by \$.3 million due to the normal amortization of non-compete agreement assets.

Accounts payable increased by \$0.9 million primarily due to increases in the Ready-Mixed Concrete Business segment related to increased sales volume in September 2010 over December 2009. Accrued liabilities decreased \$4.5 million from December 31, 2009 to September 30, 2010. The decrease was primarily due to the \$1.7 million decrease in prepayments held on account, the \$.2 million decrease in non-compete agreements and the \$1.9 million decrease in cash dividends liability resulting from the timing of when dividends are declared and paid.

Indebtedness increased \$2.8 million during the first nine months of 2010 primarily due to increased utilization of our line of credit to fund the increases in receivables, cash expenditures for property, plant and equipment, and to fund temporary operating expenses.

Unrealized holding gain decreased \$.3 million (\$.5 million net of deferred taxes) during the nine months ending September 30, 2010 primarily due to lower market prices for available-for-sale equity securities held.

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 2010 included \$1.5 million related to the Cement Business and \$2.6 million related to the Ready-Mixed Concrete Business for routine equipment purchases. During the first nine months of 2010, cash expenditures for property, plant and equipment totaled approximately \$4.8 million, excluding the amounts that are included in accounts payable.

Projects in the planning and design phases include an overland conveyor system to improve efficiencies in moving raw materials. The conveyor system and related projects are expected to cost approximately \$15.0 million to \$25.0 million depending on the exact components of the project undertaken and the volatility of certain material costs, particularly steel. Management has the discretion to postpone components of the project and the discretion to undertake part or the entire project. The overland conveyor system and related projects are estimated to take twenty-four to thirty-six months to complete after the first purchase order is issued. A date has not been set for issuance of the purchase order. The Company also plans to invest in other miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business in 2010. These expenditures are expected to reach approximately \$5.0 million during 2010 and are anticipated to 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. Construction activity, particularly in the residential market, has been adversely impacted by the global financial crisis even though interest rates continue to be at historically low levels. A continuation of the financial crisis, including a scarcity of credit, or a significant increase in interest rates could lead to a further 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. Prices of the specialized replacement parts and equipment the Company must continually purchase tend to increase directly with the rate of inflation with the exception of equipment and replacement parts containing large amounts of steel. In recent years, steel prices have tended not to follow inflationary trends, but rather have been influenced by worldwide demand. Prices for diesel fuel used in the transportation of our raw materials and finished products also vary based on supply and demand and in some years exceed the rate of inflation adversely affecting our operating profits.

ENVIRONMENTAL REGULATIONS

The Company's cement plant emissions are regulated by the Kansas Department of Health and Environment (KDHE) and the Environmental Protection Agency (EPA). KDHE is responsible for the administration and

enforcement of Kansas environmental regulations, which typically mirror national regulations.

A recent ruling promulgated by the EPA in 2009 required us to install carbon dioxide (CO₂) Continuous Emission Monitors (CEMs) to track various aspects of the production process to effectively establish a Greenhouse Gas (GHG) inventory for our cement manufacturing facility.

The EPA Administrator has also made two important findings clearing the way for EPA to regulate greenhouse gases under the Clean Air Act. The "Endangerment Finding" clarifies EPA's belief that current and projected concentrations of six key greenhouse gases in the atmosphere pose a threat to human health and welfare. Further, the "Cause or Contribute Finding," associates the emissions of the six named GHGs with the threat to public health and welfare. At this time it is difficult to determine if the EPA will act on the "Endangerment Finding", what that action may involve and when it might be put into place.

The American Clean Energy & Security Act (ACES) passed the U.S. House of Representatives, but the Senate has yet to act on climate legislation. In general this legislation encourages the limitation and/or reduction of CO₂ using a method of cap and trade. The economic impact of the pending legislation is impossible to estimate with much degree of confidence due to the uncertainty of how the final legislation would be imposed. At this time there are many variables making it difficult to predict the overall cost of carbon legislation. It is equally difficult to determine when those costs will be realized, or even the feasibility of the legislation being passed. There is consensus in the industry that the costs of CO₂ limits required through regulation or legislation could be substantial enough to fundamentally change the cement manufacturing business.

The EPA published a National Emission Standard for Hazardous Air Pollutants (NESHAP) in the Federal Register on September 9, 2010. This regulation calls for more stringent emission limitation on mercury (Hg), total hydrocarbons (THC), hydrochloric acid (HCL), and particulate matter less than 10 microns in diameter (PM 10). The Portland Cement Association (PCA) estimates that the rule will result in the permanent closure of 18 U. S. cement plants. The compliance date for all current U. S. plants is September 9, 2013. Management anticipates that we will be able to comply and is evaluating the initial cost of compliance which could be material depending upon the number and severity of steps necessary to meet the standard.

On September 9, 2010 the EPA published New Source Performance Standards (NSPS) for nitrous oxide (NOX), sulphur dioxide (SO₂) and particulate matter (PM 10). The rule applies to new or modified sources. At this time, management does not anticipate that modifications necessitated to comply with NESHAP will trigger application of NSPS.

Climate change regulation could result in (1) increased energy costs, (2) a shift toward carbon neutral fuels or carbon neutral offset strategies, and (3) increased labor costs to acquire the specialized technical expertise needed to comply with the environmental regulations. Demand for our products could decrease due to increased pollution control costs. Conversely, demand could increase as others try to meet their government environmental mandates by using concrete products known for their sustainability benefits and energy efficiency.

In management's opinion, the physical impact of a warmer climate in our market area will increase the number of days with weather conducive for work to proceed on construction projects which in turn will create the potential for greater profitability. Conversely, legislation and regulatory attempts to interfere with natural warming and cooling cycles will, if successful, have an adverse affect on profitability. In addition, differences in environmental regulations in the United States from those of other cement producing countries could affect our ability to continue to compete with the cost of cement imported from other countries.

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 invests in equity investments which are subject to market fluctuations. The Company had \$17.8 million of equity securities, primarily of publicly traded entities, as of September 30, 2010. The aggregate amount of securities carried at cost, for which the Company has not elected the fair value option, was \$2.4 million as of September 30, 2010. The remaining \$15.4 million in equity investments, which are stated at fair 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 fair value on the consolidated balance sheets at the end of each period unless they are securities for which the Company has not elected the fair value option. Securities carried at cost are adjusted for impairment, if conditions warrant. 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 \$.9 million effect, net of deferred tax, on comprehensive income. At September 30, 2010, the Company evaluated all of its equity investments for impairment. The results of those evaluations are discussed in Note 8 of Notes to the Condensed Consolidated Financial Statements.

The Company also has \$18.0 million of bank loans as of September 30, 2010. Interest rates on the Company's term loan and line of credit are variable, subject to interest rate minimums or floors, and are based on the lender's National Prime rate less .75% and lender's National Prime rate less 0.50%, 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 Securities Exchange Act of 1934) 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) or 15d-15(e) under the Exchange Act). Based upon that evaluation, the Company's President and Chairman of the Board of Directors and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2010 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

By letter dated April 27, 2009, the Company was notified by the Kansas Department of Health and Environment (KDHE) of allegations by KDHE that the Company has performed multiple modifications and alterations at the Company's facility for which the Company did not apply for or obtain the KDHE construction permits required by the Kansas Air Quality Act and related regulations. KDHE also alleged that the Company did not apply for or obtain from KDHE the necessary permits for modifications or alterations to a facility that are significant for Prevention of Significant Deterioration (PSD). Based on these allegations, KDHE proposes to assess a civil penalty of \$351,000, and to require the Company to submit a new, complete PSD permit application, including therein a proposal by the Company for installation of air emission controls to achieve Best Available Control Technology (BACT) as provided in applicable regulations. The Company does not agree with certain of KDHE's factual and legal allegations, and is attempting to resolve these issues through negotiation and mutual agreement between the Company and KDHE. The Company reserves all legal rights in the event such a resolution cannot be reached. As of September 30, 2010, it is probable that losses may result, but such losses are estimated to be insignificant.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes the purchases made by or on behalf of our Company or certain affiliated purchasers of shares of our common stock during the third quarter ended September 30, 2010:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs *
July 1-31, 2010	0	0	0	124,332
August 1-31, 2010	7,050	24.89	7,050	117,282
September 1-30, 2010	4,130	23.83	4,130	113,152
Total	11,180	\$24.50	11,180	113,152

*In 1996, our Board of Directors authorized the purchase, through open market transactions, of up to 400,000 shares of our Company's common stock. The authorization has no expiration. Management was given discretion to determine the number and pricing of the shares to be purchased as well as the timing of any such purchases.

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 9, 2010.

32.2 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 9, 2010.

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 9, 2010

/s/ Walter H. Wulf, Jr.
Walter H. Wulf, Jr.
President and
Chairman of the Board
(principal executive officer)

Date November 9, 2010

/s/ Debra P. Roe
Debra P. Roe, CPA
Chief Financial Officer and
Assistant Secretary-Treasurer
(principal financial officer and
principal accounting officer)

EXHIBIT INDEX

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