MONARCH CEMENT CO
Form 10-Q
May 11, 2010

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

FORM 10-Q

(Mark One)
[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended March 31, 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 X NO

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

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

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

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

As of May 3, 2010, there were 2,533,213 shares of Capital Stock, par value $2.50 per share outstanding and 1,490,985 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
March 31, 2010 and December 31, 2009

ASSETS	2010	2009
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	$1,514,655	$2,149,397
Receivables, less allowances of $945,500 in 2010 and $911,000 in 2009 for doubtful accounts	13,465,719	12,558,856
Inventories, priced at cost which is not in excess of market-		
Finished cement	$6,339,901	$5,345,468
Work in process	2,258,329	2,050,200
Building products	5,349,231	5,225,431
Fuel, gypsum, paper sacks and other	7,362,685	7,625,573
Operating and maintenance supplies	11,089,000	11,538,788
Total inventories	$32,399,146	$31,785,460
Refundable federal and state income taxes	1,858,696	310,795
Deferred income taxes	775,000	775,000
Prepaid expenses	689,626	324,844
Total current assets	$50,702,842	$47,904,352
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of $165,355,822 in 2010 and $162,880,507 in 2009	89,539,609	90,817,394
DEFERRED INCOME TAXES	18,841,778	19,093,778
INVESTMENTS	18,965,280	18,419,208
OTHER ASSETS	639,799	762,945
	$178,689,308	$176,997,677

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$5,553,854	$5,083,300
Line of credit payable	7,098,411	511,944
Current portion of advancing term loan	2,754,691	2,732,490
Accrued liabilities	8,891,398	10,900,596
Total current liabilities	$24,298,354	$19,228,330
LONG-TERM DEBT	11,373,009	12,096,835
ACCRUED POSTRETIREMENT BENEFITS	30,671,971	30,206,610
ACCRUED PENSION EXPENSE	12,746,436	12,250,038
STOCKHOLDERS' EQUITY:		
Capital stock, par value $2.50 per share, one vote per share - Authorized 10,000,000 shares, Issued 2,533,213 shares at 03/31/2010 and 2,532,463 shares at 12/31/2009	$6,333,033	$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 1,490,985 shares at 03/31/2010 and 1,491,735 shares at 12/31/2009	3,727,462	3,729,337
Retained earnings	101,292,386	105,989,712
Accumulated other comprehensive loss	(11,753,343)	(12,834,343)
Total stockholders'equity	$99,599,538	$103,215,864
	$178,689,308	$176,997,677

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND RETAINED EARNINGS
For the Three Months Ended March 31, 2010 and 2009 (Unaudited)

	2010	2009
NET SALES	$18,194,726	$25,330,736
COST OF SALES	20,658,998	24,858,824
Gross profit (loss) from operations	$(2,464,272)	$471,912
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,887,518	4,121,633
Loss from operations	$(6,351,790)	$(3,649,721)
OTHER INCOME (EXPENSE):		
Interest income	$50,886	$34,223
Interest expense	(122,123)	(147,694)
Gains on equity investments	4,172	77,535
Dividend Income	74,114	34,879
Other, net	772,415	(53,713)
	$779,464	$(54,770)
Loss before taxes on income	$(5,572,326)	$(3,704,491)
PROVISION FOR INCOME TAXES	(875,000)	(1,040,000)
NET LOSS	$(4,697,326)	$(2,664,491)
Less: Net loss attributable to Noncontrolling interests	-	(14,364)
NET LOSS ATTRIBUTABLE TO THE COMPANY	$(4,697,326)	$(2,650,127)
RETAINED EARNINGS, beginning of period	105,989,712	104,958,556
RETAINED EARNINGS, end of period	$101,292,386	$102,308,429
Basic loss per share	$(1.17)	$(0.66)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the Three Months Ended March 31, 2010 and 2009 (Unaudited)

	2010	2009
NET LOSS	$(4,697,326)	$(2,664,491)
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense (benefit) of $264,000 and $(396,000) for 2010 and 2009, respectively)	400,172	(596,465)
LESS: RECLASSIFICATION ADJUSTMENT FOR REALIZED GAINS (LOSSES) INCLUDED IN NET INCOME (net of deferred tax (benefit) expense of $-0- and $32,000 for 2010 and 2009, respectively)	4,172	45,535
POSTRETIREMENT LIABILITY (Net of deferred tax (benefit) expense of $-0- and $-0- for 2010 and 2009, respectively)	685,000	-
COMPREHENSIVE LOSS	$(3,616,326)	$(3,306,491)

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2010 and 2009 (Unaudited)

	2010	2009
OPERATING ACTIVITIES:		
Net loss	$ (4,697,326)	$ (2,664,491)
Adjustments to reconcile net loss to		
net cash provided by operating activities:		
Depreciation, depletion and amortization	2,893,295	2,977,641
Deferred income taxes	(12,000)	(13,000)
Gain on disposal of assets	(34,523)	(40)
Realized gain on sale of equity investments	(4,172)	(77,535)
Gain on disposal of other assets	(700,000)	-
Postretirement benefits and pension expense	1,646,759	936,335
Change in assets and liabilities:		
Receivables, net	(906,864)	(681,243)
Inventories	(613,687)	(2,975,925)
Refundable income taxes	(1,547,901)	(983,669)
Prepaid expenses	(364,782)	(483,598)
Other assets	750	5,687
Accounts payable and accrued liabilities	970,855	1,087,773
Net cash used for operating activities	$ (3,369,596)	$ (2,872,065)
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	$ (2,164,332)	$ (2,278,623)
Proceeds from disposals of property, plant and equipment	47,375	200
Proceeds from disposals of other assets	700,000	-
Payment for purchases of equity investments	(47,800)	(2,493,439)
Proceeds from disposals of equity investments	165,900	608,835
Net cash used for investing activities	$ (1,298,857)	$ (4,163,027)
FINANCING ACTIVITIES:		
Increase in line of credit, net	$ 6,586,466	$ 8,483,887
Payments on bank loans	(676,008)	(654,879)
Payments on other long-term debt	(25,616)	(84,316)
Cash dividends paid	(1,851,131)	(1,851,131)
Net cash provided by financing activities	$ 4,033,711	$ 5,893,561
Net decrease in cash and cash equivalents	$ (634,742)	$ (1,141,531)
Cash and Cash Equivalents, beginning of year	2,149,397	3,111,509
Cash and Cash Equivalents, end of period	$ 1,514,655	$ 1,969,978
Interest paid, net of amount capitalized	$ 119,826	$ 143,227
Income taxes paid, net of refunds	$ -	$ (45,204)
Capital equipment additions included in accounts payable	$ 90,111	$ 951,002

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 March 31, 2010, the amount of billed retainage which is included in accounts receivable was approximately $640,000, 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 $370,000 and $780,000 at March 31, 2010 and December 31, 2009, respectively. Unbilled revenue contained approximately $120,000 and $525,000 of not-currently-billable retainage at March 31, 2010 and December 31, 2009, respectively, which is expected to be collected within one year.

4. As of March 31, 2010, the amount of accounts payable related to property, plant and equipment was $90,111 compared to 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 Loss and Retained Earnings.

5. For the three months ended March 31, 2010, we incurred a temporary LIFO liquidation gain due to reductions in finished cement and work in process inventory of $.2 million which we expect to be restored by the end of the year. The temporary LIFO liquidation gain has been deferred as a component of accrued liabilities. We incurred a temporary LIFO liquidation gain of $.3 million due to reductions in finished cement and work in process inventory during the three months ended March 31, 2009.

6.

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

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Three Months Ended 03/31/10				
Sales to unaffiliated customers	$ 6,945,883	$ 11,248,843	$ -	$ 18,194,726
Intersegment sales	2,351,659	-	(2,351,659)	-
Total net sales	$ 9,297,542	$ 11,248,843	$ (2,351,659)	$ 18,194,726
Loss from operations	$ (3,260,410)	$ (3,091,380)		$ (6,351,790)
Other income, net				779,464
Loss before income taxes				$ (5,572,326)
Capital Expenditures	$ 465,318	$ 1,040,647		$ 1,505,965

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Three Months Ended 03/31/09				
Sales to unaffiliated customers	$ 9,942,542	$ 15,388,194	$ -	$ 25,330,736
Intersegment sales	2,403,117	-	(2,403,117)	-
Total net sales	$ 12,345,659	$ 15,388,194	$ (2,403,117)	$ 25,330,736
Loss from operations	$ (2,094,957)	$ (1,554,764)		$ (3,649,721)
Other loss, net				(54,770)
Loss before income taxes				$ (3,704,491)
Capital Expenditures	$ 2,087,052	$ 920,659		$ 3,007,771
Balance as of 3/31/10				
Identifiable Assets	$95,881,164	$40,212,936		$136,094,100
Corporate Assets				42,595,208
				$178,689,308
Balance as of 3/31/09				
Identifiable Assets	$98,054,524	$41,562,652		$139,617,176
Corporate Assets				40,487,739
				$180,104,915

7. During 2008, the Company adopted the Financial Accounting Standards Board's (FASB) new accounting standards on fair value measurements and disclosures for all financial assets and liabilities. The new accounting principles defined fair value, established a framework for measuring fair value under generally accepted accounting principles and enhanced disclosures about fair value measurements. During the first quarter of 2009, the Company adopted the new accounting standards on fair value measurements and disclosures for all non-financial assets and non-financial liabilities not recognized or disclosed at least annually at fair value.

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 active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents, short-term investments, receivables, accounts payable and long-term debt have carrying values that approximate fair values. 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 $2.1 million as of March 31, 2010. The remaining $16.9 million in equity security investments are stated at fair market 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 market value. The following table summarizes the bases used to measure certain assets at fair value on a recurring basis in the balance sheet:

		Fair Value at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Input
Assets:	03/31/2010	(Level 1)	(Level 2)	(Level 3)
Available-for-sale equity securities				
Cement industry	$7,892,142	$ 7,892,142	$ -	$ -
General building materials industry	3,670,076	3,670,076	-	-
Oil and gas refining and marketing industry	4,349,625	4,349,625	-	-
Residential construction industry	981,337	981,337	-	-
Total assets measured at fair value	$ 16,893,180	$ 16,893,180	$ -	$ -
Assets:	12/31/2009			
Available-for-sale equity securities				
Cement industry	$ 7,910,270	$ 7,910,270	$ -	$ -
General building materials industry	4,091,932	4,091,932	-	-

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

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2010:

	Less than 12 Months		12 Months or Greater		Total	
3/31/2010		Unrealized		Unrealized		Unrealized
Available-for-sale equity securities	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Cement industry	$ 416,289	$ 5,477	$ -	$ -	$ 416,289	$ 5,477
General building materials industry	2,234,830	227,114	-	-	2,234,830	227,114
Total	$ 2,651,119	$ 232,591	$ -	$ -	$ 2,651,119	$ 232,591

12/31/2009						
Available-for-sale equity securities						
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. Due to continued adverse market conditions, these investments were evaluated at December 31, 2009 and at March 31, 2010 for impairment based on average cost and specific identification, respectively. Since there is not an active market for the brick industry investment, the Company relied on a discounted future net cash flow valuation of the brick company for each period's impairment analysis which did not identify any impairment in either period. As a result of those evaluations, the Company did not consider these investments to be impaired at March 31, 2010 or December 31, 2009. The aggregate cost of the Company's cost-method investments totaled $2.1 million and $2.0 million at March 31, 2010 and December 31, 2009, respectively.

March 31, 2010

Due to continued adverse economic conditions in market segments the Company is invested in, 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 did not identify any other-than-temporary impairments in investments which would have resulted in a recognized loss in earnings of equity investments. The Company did identify some specific purchases of available-for-sale equity securities that were not other-than-temporarily impaired resulting in the recognition of unrealized losses (see table above). When the Company evaluated impairment by comparing the specifically identified cost of each purchase to market price as of April 26, 2010, these securities had recovered all of their March 31, 2010 temporary impairments. Based on our evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of the entire cost bases of the securities, the Company does not consider those investments to be impaired at March 31, 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 $0.5 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 not other-than-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 housing 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 housing 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 and the Company's ability and intent to hold these invest