

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

MONARCH CEMENT CO
Form 10-Q
November 13, 2003

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

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2003, or

Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file number: 0-2757

THE MONARCH CEMENT COMPANY
(Exact name of registrant as specified in its charter)

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

P.O. BOX 1000, HUMBOLDT, KANSAS 66748-0900
(address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (620) 473-2222

(former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 10, 2003, there were 2,388,527 shares of Capital Stock, par
value \$2.50 per share outstanding and 1,638,431 shares of Class B Capital
Stock, par value \$2.50 per share outstanding.

PART I - FINANCIAL INFORMATION

The condensed consolidated financial statements included in this report have
been prepared by our Company without audit. Certain information and footnote
disclosures normally included in financial statements prepared in accordance
with generally accepted accounting principles have been condensed or omitted.
Our Company believes that the disclosures are adequate to make the information
presented not misleading. The accompanying consolidated financial statements
reflect all adjustments that are, in the opinion of management, necessary for
a fair statement of the results of operations for the interim periods
presented. Those adjustments consist only of normal, recurring adjustments.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

The condensed consolidated balance sheet of the Company as of December 31, 2002 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 2002 filed with the Securities & Exchange Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Item 1. Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2003 and December 31, 2002

| ASSETS | 2 0 0 3 (Unaudited) | 2 0 0 2 |
|---|------------------------|---------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,356,458 | \$ 3,909,215 |
| Receivables, less allowances of \$719,000 in 2003 and \$644,000 in 2002 for doubtful accounts | 17,657,897 | 15,916,614 |
| Inventories, priced at cost which is not in excess of market- | | |
| Cost determined by last-in, first-out method- | | |
| Finished cement | \$ 3,115,690 | \$ 1,386,348 |
| Work in process | 606,433 | 626,130 |
| Building products | 1,229,604 | 1,119,723 |
| Cost determined by first-in, first-out method- | | |
| Fuel, gypsum, paper sacks and other | 4,028,386 | 4,164,573 |
| Cost determined by average method- | | |
| Operating and maintenance supplies | 8,105,305 | 8,059,488 |
| Total inventories | \$ 17,085,418 | \$ 15,356,262 |
| Refundable federal and state income taxes | - | 562,496 |
| Deferred income taxes | 593,000 | 593,000 |
| Prepaid expenses | 943,209 | 82,304 |
| Total current assets | \$ 39,635,982 | \$ 36,419,891 |
| | | |
| PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$103,079,914 in 2003 and \$96,128,254 in 2002 | 78,787,594 | 82,331,077 |
| DEFERRED INCOME TAXES | 3,577,585 | 4,038,000 |
| OTHER ASSETS | 11,633,289 | 10,717,296 |
| | \$133,634,450 | \$133,506,264 |
| | | |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 6,989,420 | \$ 5,845,901 |
| Bank loan payable | 3,552,046 | 3,048,076 |
| Current portion of advancing term loan | 3,328,261 | 3,255,476 |
| Accrued liabilities | 3,941,316 | 5,011,856 |
| Total current liabilities | \$ 17,811,043 | \$ 17,161,309 |
| | | |
| LONG-TERM DEBT | 20,621,201 | 23,284,663 |
| ACCRUED POSTRETIREMENT BENEFITS | 9,619,408 | 9,322,377 |
| ACCRUED PENSION EXPENSE | 2,385,737 | 2,418,375 |
| MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES | 1,690,611 | 1,969,101 |

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

STOCKHOLDERS' INVESTMENT:

| | | |
|--|---------------|---------------|
| Capital stock, par value \$2.50 per share, 1 vote per share - Authorized 10,000,000 shares, Issued 2,383,386 shares at 9/30/2003 and 2,344,293 shares at 12/31/2002 | \$ 5,958,465 | \$ 5,860,733 |
| 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 1,643,572 shares at 9/30/2003 and 1,682,665 shares at 12/31/2002 | 4,108,930 | 4,206,662 |
| Retained earnings | 72,038,055 | 70,582,044 |
| Accumulated other comprehensive loss | (599,000) | (1,299,000) |
| Total stockholders' investment | \$ 81,506,450 | \$ 79,350,439 |
| | \$133,634,450 | \$133,506,264 |

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Three Months and the Nine Months Ended September 30, 2003 and 2002
(Unaudited)

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-----------------------------|--------------|-----------------------------|---------------|
| | September 30, September 30, | | September 30, September 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| NET SALES | \$40,762,569 | \$41,728,112 | \$89,325,949 | \$100,008,932 |
| COST OF SALES | 33,823,702 | 32,752,459 | 76,584,066 | 83,347,514 |
| Gross profit from operations | \$ 6,938,867 | \$ 8,975,653 | \$12,741,883 | \$ 16,661,418 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 3,102,130 | 2,860,974 | 8,929,313 | 8,173,981 |
| Income from operations | \$ 3,836,737 | \$ 6,114,679 | \$ 3,812,570 | \$ 8,487,437 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | \$ 110,037 | \$ 84,184 | \$ 287,141 | \$ 210,877 |
| Interest expense | (255,900) | (288,433) | (786,221) | (754,574) |
| Other, net | 141,714 | (31,336) | 1,193,304 | (127,177) |
| | \$ (4,149) | \$ (235,585) | \$ 694,224 | \$ (670,874) |
| Income before taxes on income | \$ 3,832,588 | \$ 5,879,094 | \$ 4,506,794 | \$ 7,816,563 |
| PROVISION FOR TAXES ON INCOME | 1,240,000 | 1,765,000 | 1,440,000 | 2,350,000 |
| NET INCOME | \$ 2,592,588 | \$ 4,114,094 | \$ 3,066,794 | \$ 5,466,563 |
| RETAINED EARNINGS, beg. of period | 70,250,858 | 68,447,203 | 70,582,044 | 67,900,126 |

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

| | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|
| Less cash dividends | 805,391 | 805,391 | 1,610,783 | 1,610,783 |
| RETAINED EARNINGS, end of period | \$72,038,055 | \$71,755,906 | \$72,038,055 | \$71,755,906 |
| Basic earnings per share | \$.64 | \$1.02 | \$.76 | \$1.36 |
| Cash dividends per share | \$.20 | \$.20 | \$.40 | \$.40 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and the Nine Months Ended September 30, 2003 and 2002 (Unaudited)

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|---------------|---------------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2003 | 2002 | 2003 | 2002 |
| NET INCOME | \$ 2,592,588 | \$ 4,114,094 | \$ 3,066,794 | \$ 5,466,563 |
| UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense (benefit) of \$180,000, \$(240,000), \$460,000 and \$(190,000), respectively) | 280,000 | (360,000) | 700,000 | (290,000) |
| COMPREHENSIVE INCOME | \$ 2,872,588 | \$ 3,754,094 | \$ 3,766,794 | \$ 5,176,563 |

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2003 and 2002 (Unaudited)

| | 2003 | 2002 |
|--|--------------|---------------|
| OPERATING ACTIVITIES: | | |
| Net income | \$ 3,066,794 | \$ 5,466,563 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and depletion | 8,214,200 | 8,227,086 |
| Minority interest in earnings (losses) of subsidiaries | (278,490) | 171,357 |
| Deferred income taxes, long-term | 415 | - |
| Gain on disposal of assets | (377,577) | (87,967) |
| Realized gain on sale of other investments | (404,616) | - |
| Change in assets and liabilities, net of acquisitions: | | |
| Receivables, net | (1,741,186) | (7,255,287) |
| Inventories | (1,729,156) | 1,648,701 |
| Refundable federal and state income taxes | 562,496 | 474,867 |
| Prepaid expenses | (860,905) | (166,427) |
| Other assets | 11,909 | 10,546 |
| Accounts payable and accrued liabilities | 1,683,762 | 1,553,325 |
| Accrued postretirement benefits | 297,031 | 265,690 |
| Accrued pension expense | (32,638) | (119,854) |
| Net cash provided by operating activities | \$ 8,412,039 | \$ 10,188,600 |

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

INVESTING ACTIVITIES:

| | | |
|--|--------------------|---------------------|
| Acquisition of property, plant and equipment | \$ (4,521,127) | \$ (7,352,814) |
| Proceeds from disposals of property, plant and equipment | 447,824 | 209,314 |
| Payment for purchases of equity investments | (240,849) | (1,193,469) |
| Proceeds from disposals of equity investments | 657,726 | - |
| (Increase) decrease in short-term investments, net | (97) | 161,832 |
| Net purchases of subsidiaries' stock | - | (2,421,057) |
| Net cash used for investing activities | \$ (3,656,523) | \$ (10,596,194) |

FINANCING ACTIVITIES:

| | | |
|--|--------------------|------------------|
| Proceeds from bank loans | \$ (2,086,707) | \$ 4,090,331 |
| Cash dividends paid | (3,221,566) | (3,221,566) |
| Subsidiaries' dividends paid to minority interest | - | (14,742) |
| Net cash provided by (used for) financing activities | \$ (5,308,273) | \$ 854,023 |
| Net increase (decrease) in cash and cash equivalents | \$ (552,757) | \$ 446,429 |
| CASH AND CASH EQUIVALENTS, beginning of year | 3,909,215 | 3,224,861 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 3,356,458 | \$ 3,671,290 |
| Interest paid, net of amount capitalized | \$807,497 | \$771,430 |
| Income taxes paid, net of refunds | \$335,649 | \$341,941 |

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003 and 2002 (Unaudited), and December 31, 2002

1. For a summary of accounting policies, the reader should refer to Note 1 of the consolidated financial statements included in our Company's most recent annual report on Form 10-K.
2. Basic earnings per share of capital stock has been calculated based on the weighted average shares outstanding during each of the reporting periods. The weighted average number of shares outstanding was 4,026,958 in the third quarter of 2003 and 2002 and in the first nine months of 2003 and 2002. The Company has no common stock equivalents and therefore, does not report diluted earnings per share.
3. Our Company groups its operations into two business segments - Industry Segment A (cement manufacturing) and Industry Segment B (ready-mixed concrete and sundry building materials). Following is condensed information for each segment for the periods indicated (in thousands):

Three Months Ended Nine Months Ended

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

9/30/03 9/30/02 9/30/03 9/30/02

| | | | | | |
|----------------------------------|-----------|----------|----------|---------------|----------|
| Sales to Unaffiliated Customers- | | | | | |
| Industry: | Segment A | \$17,722 | \$17,491 | \$35,581 | \$39,331 |
| | Segment B | 23,041 | 24,237 | 53,745 | 60,678 |
| Intersegment Sales- | | | | | |
| Industry: | Segment A | 3,387 | 3,188 | 8,256 | 8,360 |
| | Segment B | - | 49 | - | 85 |
| Operating Profit- | | | | | |
| Industry: | Segment A | 3,008 | 4,250 | 4,939 | 6,318 |
| | Segment B | 829 | 1,864 | (1,126) | 2,169 |
| Capital Expenditures- | | | | | |
| Industry: | Segment A | 391 | 1,158 | 1,002 | 2,634 |
| | Segment B | 965 | 1,243 | 3,519 | 4,719 |
| | | | | Balance as of | |
| | | | | 9/30/03 | 12/31/02 |
| Identifiable Assets- | | | | | |
| Industry: | Segment A | | | \$75,136 | \$76,369 |
| | Segment B | | | 39,338 | 37,316 |
| Corporate Assets- | | | | 19,160 | 19,821 |

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

5. Capital expenditures for property, plant and equipment were approximately \$4,521,000 during the first nine months of 2003. These funds were primarily used to upgrade equipment in the ready-mixed concrete and sundry building materials segment.

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

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

FORWARD-LOOKING STATEMENTS

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

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

implied by such forward-looking statements. Such factors include, among others:

- * general economic and business conditions;
- * competition;
- * raw material and other operating costs;
- * costs of capital equipment;
- * changes in business strategy or expansion plans;
- * demand for our Company's products;
- * cyclical and seasonal nature of our business;
- * the affect weather has on our business;
- * the affect of environmental and other government regulation; and
- * the affect of federal and state funding on demand for our products.

LIQUIDITY

We are able to meet our cash needs primarily from a combination of operations and bank loans. Cash decreased during the first nine months of 2003 primarily due to the purchase of equipment, the payment of dividends and payments on our bank loan.

In December 2002, Monarch renegotiated its unsecured credit commitment with a bank. This revised commitment consists of a \$25,000,000 advancing term loan maturing December 31, 2005 and a \$10,000,000 line of credit maturing December 31, 2003. These loans each bear floating interest rates based on JP Morgan Chase prime rate less 1.25% and .75%, respectively. The loan agreement contains a financial covenant related to net worth which the Company was in compliance with at the end of the first nine months of 2003. As of September 30, 2003, we had borrowed \$22,557,758 on the advancing term loan and \$3,552,046 on the line of credit leaving a balance available on the line of credit of \$6,447,954. The average daily interest rate we paid on the advancing term loan during the third quarter of 2003 and 2002 was 2.75% and 3.50%, respectively, and for the first nine months of 2003 and 2002 was 2.91% and 3.50%, respectively. The average daily interest rate we paid on the line of credit during the third quarter of 2003 and 2002 was 3.25% and 3.50%, respectively, and the first nine months of 2003 and 2002 was 3.41% and 3.50%, respectively. As of September 30, 2003, the applicable interest rate was 2.75% on the advancing term loan and 3.25% on the line of credit. The advancing term loan was used to help finance the expansion project at our cement manufacturing facility. The line of credit was used to cover operating expenses primarily during the first half of the year when the company was building inventory due to the seasonality of our business (see Seasonality below). We anticipate that the line of credit maturing December 31, 2003 will be paid using funds from operations or replacement bank financing. Our board of directors has given management the authority to borrow an additional \$15,000,000 for a maximum of \$50,000,000. At this time we do not anticipate borrowing the additional \$15,000,000; although an increase in financing may be required on a short-term basis.

FINANCIAL CONDITION

Total assets as of September 30, 2003 were \$133,634,450, an increase of \$128,186 since December 31, 2002. The decrease in net property, plant and equipment was offset by increases in receivables and inventories, resulting in a moderate increase in total assets. These variations are common during the first nine months of the year due to the seasonality of our business (see Seasonality below).

Indebtedness decreased \$2,086,707 during the first nine months of 2003 due primarily to utilizing cash provided by operations to reduce the advancing term loan.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Stockholders' investment increased 2.7% during the first nine months of 2003 primarily due to the net income. Basic earnings were \$.76 per share.

CAPITAL RESOURCES

The Company regularly invests in miscellaneous equipment and facility improvements in both the cement and ready-mixed concrete segments. Capital expenditures during the first nine months of 2003 were primarily routine equipment purchases in the ready-mixed concrete segment. For the balance of the year, we anticipate continuing these recurring capital expenditures in order to keep our equipment and facilities up-to-date.

We are also beginning the installation of a coal firing system on our precalciner kiln. This will allow us to burn primarily coal and petroleum coke in our precalciner in lieu of natural gas. We have purchased the equipment for this project; however, we do not anticipate major expenditures towards its installation until 2004. Finally, we continue to monitor projected market demands as we evaluate the feasibility of installing a second precalciner and clinker cooler to further increase our production capacity. Additional bank financing may be required to complete these projects.

Results of Operations

Cement, ready-mixed concrete and sundry building materials are used in residential, commercial and governmental construction. Overall demand for our products by each of these segments has been strong for the past several years. For the year 2003, the Portland Cement Association (PCA) predicts only a modest decline in the total U.S. consumption of cement. Residential construction, although not as strong as 2002, is still predicted to remain strong due to continued projected low interest rates. Major construction projects, including parking garages, schools, hospitals, waste water treatment plants, and detention facilities are currently underway in our market area. The Kansas highway program is currently on target through 2003, although the Kansas legislature has voted to divert money from future highway projects to other areas due to serious budget shortfalls. Even though the PCA predicts a decline in overall construction spending for the third consecutive year, 2003 is projected to rank as the fourth best year in history for construction spending.

Consolidated net sales for the quarter ended September 30, 2003, decreased by \$965,543 when compared to the quarter ended September 30, 2002. Sales of cement were higher by \$231,221, and sales of ready-mixed concrete and sundry building materials were lower by \$1,196,764. This reduction in sales was primarily due to a decrease in volume sold in the ready-mixed concrete and sundry building materials segment as a result of decreased construction activities in a few of our market areas.

The gross profit rate for the three months ended September 30, 2003 was 17.0% versus 21.5% for the three months ended September 30, 2002. Higher natural gas prices in the third quarter of 2003 as compared to the third quarter of 2002 increased the cost of producing cement and contributed to the reduction in the gross profit rate in the cement segment. Reduced utilization of equipment due to lower sales volumes of ready-mixed concrete also contributed to the reduction in the company's gross profit rate.

Selling, general, and administrative expenses increased by 8.4% during the third quarter of 2003 compared to the third quarter of 2002. Overall increases in insurance and pension costs contributed to this increase, although no single factor increased materially.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Other, net increased \$173,050 during the third quarter of 2003 as compared to the third quarter of 2002 primarily due to a reduction in subsidiary income allocated to minority interest.

The effective tax rates for the third quarter of 2003 and 2002 were 32.4% and 30.0%, respectively. The Company's effective tax rate differs from the federal and state statutory income tax rate primarily due to the effects of percentage depletion and minority interest in consolidated income.

Consolidated net sales for the nine months ended September 30, 2003 were \$89,325,949, a decrease of \$10,682,983 as compared to the nine months ended September 30, 2002. Sales of cement were lower by \$3,749,906 and sales of ready-mixed concrete and sundry building materials were lower by \$6,933,077. Wet weather during the first six months of 2003 slowed construction projects, decreasing sales volume of both cement and ready-mixed concrete. Although sales during the third quarter of 2003 rebounded from this slow start, we were unable to match 2002 net sales.

The gross profit rate for the nine months ended September 30, 2003 was 14.3% versus 16.7% for the nine months ended September 30, 2002. This decrease is primarily due to reduced utilization of equipment due to lower sales volumes of ready-mixed concrete.

Selling, general, and administrative expenses increased 9.2% for the first nine months of 2003 compared to the first nine months of 2002. Overall increases in insurance and pension costs contributed to this increase, although no single factor increased materially.

Interest expense increased \$31,647 for the first nine months of 2003 as compared to the first nine months of 2002. Bank loans outstanding as of the beginning of 2003 were greater than the amount outstanding at the beginning of 2002 creating an increase in average bank loans outstanding for the first nine months of 2003 as compared to the first nine months of 2002.

Other, net increased \$1,320,481 during the first nine months of 2003 as compared to the first nine months of 2002 primarily due to an increase in subsidiary losses allocated to minority interest, a gain on the sale of equity investments and an increase in miscellaneous sales.

The effective tax rates for the nine months ended September 30, 2003 and 2002 were 32.0% and 30.1%, respectively. The Company's effective tax rate differs from the federal and state statutory income tax rate primarily due to the effects of percentage depletion and minority interest in consolidated income.

MARKET RISK

Market risks relating to the Company's operations result primarily from changes in demand for our products. A significant increase in interest rates could lead to a reduction in construction activities in both the residential and commercial markets. Budget shortfalls during economic slowdowns could cause money to be diverted away from highway projects, schools, detention facilities and other governmental construction projects. Reduction in construction activity lowers the demand for cement, ready-mixed concrete 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

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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, in its preheater kiln. We do not anticipate a significant increase above the rate of inflation in the cost of these solid fuels, or in the electricity required to operate our cement manufacturing equipment. In 2001, the Company added a precalciner to one of its kilns to increase production capacity. This precalciner burns natural gas. Increases in natural gas prices exceeding the rate of inflation create an above average increase in manufacturing costs. The Company has plans to add a coal firing system to its precalciner kiln to reduce dependence on natural gas. Prices of the specialized replacement parts and equipment the Company must continually purchase tend to increase directly with the rate of inflation causing manufacturing costs to increase.

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has \$9,685,000 of equity securities as of September 30, 2003. These investments are not hedged and are exposed to the risk of changing market prices. The Company classifies these securities as "available-for-sale" for accounting purposes and marks them to market on the balance sheet at the end of each period. Management estimates that its investments will generally be consistent with trends and movements of the overall stock market excluding any unusual situations. An immediate 10% change in the market price of our equity securities would have a \$580,000 effect on comprehensive income.

The Company also has \$26,109,804 of bank loans as of September 30, 2003. Interest rates on the Company's advancing term loan and line of credit are variable and are based on the JP Morgan Chase prime rate less 1.25% and .75%, respectively.

ITEM 4. CONTROLS AND PROCEDURES/INTERNAL CONTROLS

As of the end of the quarter ended September 30, 2003, our management, including our President and Chairman of the Board of Directors and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Securities Exchange Act of 1934. Based upon that evaluation, our President and Chairman of the Board of Directors and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure controls and procedures are satisfied. There has been no change in our internal control over financial reporting during the quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

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

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

32.1 Certificate of the President and Chairman of the Board pursuant to 18 U.S.C. Section 1350 as adopted under Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted under Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K. There were no reports required to be filed on Form 8-K during the quarter for which this report is being filed (July 1, 2003 to September 30, 2003, inclusive).

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE MONARCH CEMENT COMPANY
(Registrant)

Date November 13, 2003

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

Date November 13, 2003

/s/ Debra P. Roe
Debra P. Roe, CPA
Chief Financial Officer and

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Assistant Secretary-Treasurer

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|---|
| 31.1 | Certificate of the President and Chairman of the Board pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 |
| 31.2 | Certificate of the Chief Financial Officer pursuant to Section 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 |
| 32.1 | 18 U.S.C. Section 1350 Certificate of the President and Chairman of the Board dated November 13, 2003, which is accompanying this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003 and is treated as furnished rather than filed in reliance on the final rule issued by the Securities and Exchange Commission Release No. 33-8238. |
| 32.2 | 18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 13, 2003, which is accompanying this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003 and is treated as furnished rather than filed in reliance on the final rule issued by the Securities and Exchange Commission Release No. 33-8238. |