

MONARCH CEMENT CO
Form 10-Q
August 09, 2007

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 **June 30, 2007**, 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

As of **July 31, 2007**, there were 2,505,972 shares of Capital Stock, par value \$2.50 per share outstanding and 1,520,986 shares of Class B Capital Stock, par value \$2.50 per share outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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, 2006 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 2006 filed with the Securities and Exchange

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Commission. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

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THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2007 and December 31, 2006

ASSETS	2 0 0 7	2 0 0 6
CURRENT ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 2,530,538	\$ 2,410,623
Receivables, less allowances of \$684,000 in 2007 and \$641,000 in 2006 for doubtful accounts	19,632,543	14,795,481
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 6,584,810	\$ 3,988,211
Work in process	3,088,898	2,753,095
Building products	3,980,618	3,693,636
Fuel, gypsum, paper sacks and other	4,350,729	3,465,194
Operating and maintenance supplies	9,426,690	8,677,942
Total inventories	\$ 27,431,745	\$ 22,578,078
Refundable federal and state income taxes	-	739,574
Deferred income taxes	670,000	670,000
Prepaid expenses	659,765	284,599
Total current assets	\$ 50,924,591	\$ 41,478,355
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$136,058,817 in 2007 and \$131,120,295 in 2006	93,402,535	95,112,389
DEFERRED INCOME TAXES	9,684,442	9,692,000
INVESTMENTS	15,289,414	15,275,669
OTHER ASSETS	834,129	945,429
	\$170,135,111	\$ 162,503,842
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	\$ 7,296,933	\$ 5,579,416
Line of credit payable	9,047,761	6,397,667
Current portion of advancing term loan	2,100,243	2,027,377
Accrued liabilities	5,744,875	6,102,002
Total current liabilities	\$ 24,189,812	\$ 20,106,462
LONG-TERM DEBT	18,873,105	20,055,010
ACCRUED POSTRETIREMENT BENEFITS	26,163,200	25,322,665
ACCRUED PENSION EXPENSE	3,841,444	4,040,213
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	712,419	1,023,116
STOCKHOLDERS' INVESTMENT:		

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Capital stock, par value \$2.50 per share, one vote per share -

Authorized 10,000,000 shares, Issued 2,505,672 shares at 6/30/2007 and 2,488,285 shares at 12/31/2006	\$ 6,264,180	\$ 6,220,713
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 1,521,286 shares at 6/30/2007 and 1,538,673 shares at 12/31/2006	3,803,215	3,846,682
Retained earnings	91,184,698	86,797,943
Accumulated other comprehensive loss	(4,896,962)	(4,908,962)
Total stockholders' investment	\$ 96,355,131	\$ 91,956,376
	\$ 170,135,111	\$ 162,503,842

See notes to condensed consolidated financial statements

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THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Three Months and Six Months Ended June 30, 2007 and 2006 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
NET SALES	\$40,090,959	\$43,570,624	\$64,303,319	\$74,782,126
COST OF SALES	30,757,645	32,004,639	51,235,525	58,368,595
Gross profit from operations	\$ 9,333,314	\$ 11,565,985	\$13,067,794	\$16,413,531
SELLING, GENERAL AND				
ADMINISTRATIVE EXPENSES	3,542,993	3,419,112	7,391,431	6,852,658
Income from operations	\$ 5,790,321	\$ 8,146,873	\$ 5,676,363	\$ 9,560,873
OTHER INCOME (EXPENSE):				
Interest income	\$ 70,165	\$ 102,248	\$ 136,053	\$ 181,110
Interest expense	(548,592)	(565,327)	(1,024,262)	(758,491)
Gains on equity investments	904,368	-	2,113,686	-
Other, net	551,191	257,496	770,846	415,066
	\$ 977,132	\$ (205,583)	\$ 1,996,323	\$ (162,315)
Income before taxes on income	\$ 6,767,453	\$ 7,941,290	\$ 7,672,686	\$ 9,398,558
PROVISION FOR INCOME TAXES	2,125,000	2,450,000	2,400,000	2,900,000
NET INCOME	\$ 4,642,453	\$ 5,491,290	\$ 5,272,686	\$ 6,498,558
RETAINED EARNINGS, beg. of period	87,428,176	77,972,631	86,797,943	76,965,363
Less cash dividends	885,931	845,661	885,931	845,661
RETAINED EARNINGS, end of period	\$ 91,184,698	\$ 82,618,260	\$91,184,698	\$82,618,260
Basic earnings per share	\$ 1.15	\$ 1.36	\$ 1.31	\$ 1.61
Cash dividends per share	\$ 0.22	\$ 0.21	\$ 0.22	\$ 0.21

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and Six Months Ended June 30, 2007 and 2006 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
NET INCOME	\$ 4,642,453	\$ 5,491,290	\$ 5,272,686	\$ 6,498,558

UNREALIZED APPRECIATION (DEPRECIATION)

ON AVAILABLE FOR SALE SECURITIES (Net

of deferred tax expense (benefit) of \$204,000, \$(1,223,000),

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\$852,000 and \$192,000, respectively)	306,000	(1,832,000)	1,278,000	288,000
LESS: RECLASSIFICATION ADJUSTMENT FOR REALIZED GAINS INCLUDED IN NET INCOME (net of deferred tax expense of \$360,000, \$-0-, \$844,000 and \$-0-, respectively)				
	540,000	-	1,266,000	-
COMPREHENSIVE INCOME	\$ 4,408,453	\$ 3,659,290	\$ 5,284,686	\$ 6,786,558

See notes to condensed consolidated financial statements

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THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2007 and 2006 (Unaudited)

	2007	2006
OPERATING ACTIVITIES:		
Net income	\$ 5,272,686	\$ 6,498,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	5,768,977	4,906,051
Minority interest in earnings (losses) of subsidiaries	(120,957)	24,388
Deferred income taxes	(442)	788
Gain on disposal of assets	(145,997)	(169,958)
Realized gain on sale of equity investments	(2,113,686)	-
Change in assets and liabilities:		
Receivables, net	(4,837,062)	(6,778,759)
Inventories	(4,853,667)	(4,373,273)
Refundable income taxes	739,574	-
Prepaid expenses	(375,166)	(527,386)
Other assets	10,740	9,775
Accounts payable and accrued liabilities	3,211,814	3,686,516
Accrued postretirement benefits	840,535	753,834
Accrued pension expense	(198,769)	183,946
Net cash provided by operating activities	\$ 3,198,580	\$ 4,214,480
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$ (4,148,405)	\$ (14,457,678)
Proceeds from disposals of property, plant and equipment	175,736	203,788
Payment for purchases of equity investments	(931,096)	(18,112)
Proceeds from disposals of equity investments	3,051,038	-
Decrease in short-term investments, net	-	1,500,000
Purchases of subsidiaries' stock	(189,740)	(118,116)
Net cash used for investing activities	\$ (2,042,467)	\$ (12,890,118)
FINANCING ACTIVITIES:		
Increase in line of credit, net	\$ 2,650,094	\$ 9,986,551
Payments on bank loans	(1,001,138)	(915,747)
Payments on other long-term debt	(107,901)	(101,735)
Cash dividends paid	(2,577,253)	(2,456,444)
Subsidiaries' dividends paid to minority interest	-	(25,733)
Net cash provided by (used for) financing activities	\$ (1,036,198)	\$ 6,486,892
Net increase (decrease) in cash and cash equivalents	\$ 119,915	\$ (2,188,746)

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Cash and Cash Equivalents, beginning of year	2,410,623	4,895,561
Cash and Cash Equivalents, end of period	\$ 2,530,538	\$ 2,706,815
Interest paid, net of amount capitalized	\$ 1,029,351	\$ 748,225
Income taxes paid, net of refunds	\$ -	\$ 1,688,235
Capital equipment additions included in accounts payable	\$ 1,426	\$ 192,092
See notes to condensed consolidated financial statements		

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THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006 (Unaudited), and December 31, 2006

1. For a summary of accounting policies, the reader should refer to Note 1 of the consolidated financial statements included in our Company's most recent annual report on Form 10 K.
2. Basic earnings per share of capital stock has been calculated based on the weighted average shares outstanding during each of the reporting periods. The weighted average number of shares outstanding was 4,026,958 in the second quarter of 2007 and 2006 and in the first six months of 2007 and 2006. The Company has no common stock equivalents and therefore, does not report diluted earnings per share.
3. Our Company groups its operations into two lines of business - Cement Business and Ready-Mixed Concrete Business. The "Cement Business" refers to our manufacture and sale of cement and "Ready-Mixed Concrete Business" refers to our ready-mixed concrete, concrete products and sundry building materials business. Following is condensed information for each line for the periods indicated (in thousands):

	Three Months Ended		Six Months Ended	
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
Sales to Unaffiliated Customers				
Cement Business	\$ 20,286	\$ 21,389	\$ 30,026	\$ 32,362
Ready-Mixed Concrete Business	19,805	22,182	34,277	42,420
Intersegment Sales				
Cement Business	3,890	3,549	6,241	6,693
Ready-Mixed Concrete Business	-	-	-	-
Operating Income (Loss)				
Cement Business	5,856	8,067	6,561	9,607
Ready-Mixed Concrete Business	(66)	80	(885)	(46)
Capital Expenditures				
Cement Business	1,860	2,525	2,778	11,575
Ready-Mixed Concrete Business	825	353	1,211	1,037

	Balance as of	
	<u>6/30/07</u>	<u>12/31/06</u>
Identifiable Assets		
Cement Business	\$ 104,014	\$ 98,343
Ready-Mixed Concrete Business	37,113	34,428
Corporate Assets	29,008	29,733

4. 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 six months ended June 30, 2007 and 2006:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 210,734	\$ 348,838	\$ 261,388	\$ 254,152
Interest cost	655,925	1,144,253	822,600	799,826
Expected return on plan assets	(726,162)	(1,274,949)	-	-
Amortization of prior service cost	28,771	51,116	-	-
Recognized net actuarial gain	87,995	66,765	-	-
Unrecognized net loss	-	-	411,651	400,254
Net periodic expense	\$ 257,263	\$ 336,023	\$ 1,495,639	\$ 1,454,232

The following table presents the components of net periodic costs for the three months ended June 30, 2007 and 2006:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 108,052	\$ 165,785	\$ 130,558	\$ 127,076
Interest cost	336,320	543,805	410,872	399,913
Expected return on plan assets	(372,333)	(605,918)	-	-
Amortization of prior service cost	14,752	24,293	-	-
Recognized net actuarial gain	45,118	31,730	-	-
Unrecognized net loss	-	-	205,611	200,127
Net periodic expense	\$ 131,909	\$ 159,695	\$ 747,041	\$ 727,116

As previously disclosed in our financial statements for the year ended December 31, 2006, Monarch expects to contribute approximately \$545,000 to the pension fund in 2007. As of June 30, 2007, we have contributed about \$155,000 and anticipate contributing an additional \$390,000 to this plan in 2007 for a total of \$545,000. 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, 2006, Monarch expects to contribute approximately \$1,400,000 to this plan in 2007. As of June 30, 2007, we have contributed about \$655,000 and anticipate contributing an additional \$745,000 to this plan in 2007 for a total of \$1,400,000.

5. A Monarch subsidiary, Monarch and three of its officers are involved in a lawsuit with the former officers of that subsidiary and companies formed by those officers. All claims against Monarch, its subsidiary and officers have been dismissed by the court; on the counterclaims asserted by Monarch and the subsidiary, summary judgment has been granted against the former officers with damage amounts still to be determined at trial. For additional information on this matter, see Item 1, Part II of this report on Form 10-Q.

6. The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the application of Statement 109 by defining a recognition threshold of "more likely than not" that the position would be sustained upon examination before any part of the benefit of that position be recognized in an enterprise's financial statements. It also provides guidance on the measurement of the tax position. The adoption of FIN 48 had no material effect on the Company's financial position, operations or cash flows.

The Company or one of its subsidiaries 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 2003.

7. The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)"* on December 31, 2006. The most significant change was the requirement for the Company to recognize the entire overfunded or underfunded status of its defined benefit and postretirement plans as assets or liabilities in its statement of financial position and to recognize changes, net of taxes, in that funded status in the year in which the changes occur through comprehensive income. The Company correctly recognized the funded status of the plans in its statement of financial position in its December 31, 2006 10-K filing. Subsequently, we have been advised that adjustments due to the adoption of FAS 158 for pension and postretirement should not have been included in the Statement of Comprehensive Income for the year of adoption, but rather should have been a direct adjustment to Accumulated Other Comprehensive Income. We will so report these adjustments with respect to the 2006 Statement of Comprehensive Income in the next Form 10-K filing. The "as reported" and "as revised" amounts of Other Comprehensive Income are as follows:

AS REPORTED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	2006	2005	2004
NET INCOME	\$ 13,215,225	\$ 9,658,369	\$ 2,569,203
UNREALIZED APPRECIATION (DEPRECIATION) ON			
AVAILABLE FOR SALE SECURITIES (Net of deferred tax (benefit) expense of \$308,000, \$395,000, and \$1,615,000 for 2006, 2005 and 2004, respectively)	462,000	588,205	2,470,400
RECLASSIFICATION ADJUSTMENT FOR REALIZED (GAINS) LOSSES INCLUDED IN			
NET INCOME (Net of deferred tax (benefit) expense of \$0, \$155,000 and \$515,000 for 2006, 2005 and 2004, respectively)	-	(228,205)	(770,400)
MINIMUM PENSION LIABILITY (Net of deferred tax (benefit) expense of	744,802	(1,140,000)	(240,000)

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\$497,000, \$(760,000) and \$(160,000) for 2006, 2005 and 2004, respectively)

ADOPTION OF FAS 158-PENSION

LIABILITY (Net of deferred tax

(benefit) expense of \$(872,000), \$0 and \$0 for 2006, 2005 and

2004, respectively)

(1,311,444)

-

-

ADOPTION OF FAS 158-POSTRETIREMENT LIABILITY (Net of

deferred tax (benefit) expense of \$(4,960,000), \$0 and \$0 for 2006,

2005 and 2004, respectively)

(7,444,320)

-

-

COMPREHENSIVE INCOME

\$ 5,666,263

\$ 8,878,369

\$ 4,029,203

AS REVISED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	2006	2005	2004
NET INCOME	\$ 13,215,225	\$ 9,658,369	\$ 2,569,203
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax (benefit) expense of \$308,000, \$395,000, and \$1,615,000 for 2006, 2005 and 2004, respectively)	462,000	588,205	2,470,400
RECLASSIFICATION ADJUSTMENT FOR REALIZED (GAINS) LOSSES INCLUDED IN NET INCOME (Net of deferred tax (benefit) expense of \$0, \$155,000 and \$515,000 for 2006, 2005 and 2004, respectively)	-	(228,205)	(770,400)
MINIMUM PENSION LIABILITY (Net of deferred tax (benefit) expense of \$497,000, \$(760,000) and \$(160,000) for 2006, 2005 and 2004, respectively)	744,802	(1,140,000)	(240,000)
COMPREHENSIVE INCOME	\$ 14,422,027	\$ 8,878,369	\$ 4,029,203

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

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

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

RESULTS OF OPERATIONS - 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, 2006 for accounting policies which are considered by management to be critical to an understanding of the Company's financial statements.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the application of Statement 109 by defining a recognition threshold of "more likely than not" that the position would be sustained upon examination before any part of the benefit of that position be recognized in an enterprise's financial statements. It also provides guidance on the measurement of the tax position. The adoption of FIN 48 had no material effect on the Company's financial position, operations or cash flows.

The Company or one of its subsidiaries 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 2003.

RESULTS OF OPERATIONS - OVERVIEW

Our products are used in residential, commercial and governmental construction. In recent years we experienced the return of increased demand for our products. The combination of residential, commercial and governmental construction activities resulted in the need for increased production to meet our customers' needs. In response to those needs, we have made, and continue to make, investments in our plant and equipment to increase production and improve efficiencies.

Operating results for the first six months vary considerably from year-to-year. Sales and the resulting income (loss) are significantly affected by the length and severity of winter weather and the corresponding slowdown in construction activity. Cement and ready-mixed concrete sales for the first six months of 2007 were impacted by abnormally rainy weather, a longer period of cold weather and a slowdown in residential construction as compared to 2006. Volume decreases resulting from these conditions, partially offset by increases in price, resulted in a decrease in net income. We anticipate sales in both the Cement Business and Ready-Mixed Concrete Business will improve during the balance of 2007 as weather conditions allow weather delayed projects to resume.

RESULTS OF OPERATIONS - SECOND QUARTER OF 2007 COMPARED TO SECOND QUARTER OF 2006

Consolidated net sales for the three months ended June 30, 2007, decreased by \$3.5 million when compared to the three months ended June 30, 2006. Sales in our Cement Business were lower by \$1.1 million and sales in our Ready-Mixed Concrete Business were lower by \$2.4 million. Cement Business sales decreased \$2.7 million due to decreased volume sold and increased \$1.6 million due to price increases. Ready-mixed concrete sales and other sundry building materials decreased \$3 million as a result of decreased volume which was partially offset by a \$.6 million increase due to price increases.

Consolidated cost of sales for the three months ended June 30, 2007, decreased by \$1.3 million when compared to the three months ended June 30, 2006. Cost of sales in our Cement Business was higher by \$.8 million and cost of sales in our Ready-Mixed Concrete Business was lower by \$2.1 million. Cement Business cost of sales increased primarily due to increased depreciation for new equipment that recently went online. Ready-Mixed Concrete Business cost of sales decreased due to the decreased volume sold.

As a result of the above sales and cost of sales factors, our overall gross profit rate for the three months ended June 30, 2007 was 23.3% versus 26.6% for the three months ended June 30, 2006.

Other, net increased approximately \$1.2 million during the second quarter of 2007 as compared to the second quarter of 2006 primarily due to an increase in the gains realized on the sale of other equity investments.

The effective tax rates for the three months ended June 30, 2007 and 2006 were 31.4% and 30.9%, respectively. The Company's effective tax rate differs from the federal and state statutory income tax rate primarily due to the effects of percentage depletion, domestic production activities deduction, minority interest in consolidated income (loss) and valuation allowance. Taxes for the current year are estimated based on prior year effective tax rates.

RESULTS OF OPERATIONS - FIRST SIX MONTHS OF 2007 COMPARED TO THE FIRST SIX MONTHS OF 2006

Consolidated net sales for the six months ended June 30, 2007, decreased by \$10.5 million when compared to the six months ended June 30, 2006. Sales in our Cement Business were lower by \$2.3 million and sales in our Ready-Mixed Concrete Business were lower by \$8.2 million. Cement Business sales decreased \$4.8 million due to decreased volume sold which was partially offset by \$2.5 million due to price increases. Sales in the Ready-Mixed Concrete Business decreased \$9.3 million due to decreased volume which was partially offset by \$1.1 million due to price incre