MONARCH CEMENT CO
Form 10-Q
May 10, 2013

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, 2013, or

o 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 o

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 x NO o

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	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of April 30, 2013, there were 2,599,783 shares of Capital Stock, par value $2.50 per share outstanding and 1,413,851 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, 2012 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 annual report on Form 10-K for 2012 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, 2013 (unaudited) and December 31, 2012

ASSETS	2013	2012
Current Assets:		
Cash and cash equivalents	$ 725,599	$ 1,440,959
Receivables, less allowances of $661,000 in 2013 and		
$636,000 in 2012 for doubtful accounts	18,247,767	17,235,220
Inventories, priced at cost which is not in excess of market-		
Finished cement	$ 5,719,486	$ 5,385,586
Work in process	3,021,710	3,040,112
Building products	4,569,437	4,324,133
Fuel, gypsum, paper sacks and other	7,591,610	6,760,554
Operating and maintenance supplies	13,166,174	13,244,419
Total inventories	$ 34,068,417	$ 32,754,804
Refundable federal and state income taxes	1,968,977	1,441,206
Deferred income taxes	750,000	750,000
Prepaid expenses	1,246,775	658,369
Total current assets	$ 57,007,535	$ 54,280,558
Property, Plant and Equipment, at cost, less		
accumulated depreciation and depletion of $194,545,371		
in 2013 and $193,109,379 in 2012	87,915,366	83,179,004
Deferred Income Taxes	14,921,458	14,964,458
Investments, carried at fair value	24,307,498	24,761,746
Investments, carried at cost	2,618,904	2,618,904
Other Assets	1,439,481	1,483,475
	$ 188,210,242	$ 181,288,145

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 8,347,899	$ 11,186,677
Current portion of term loan	1,428,571	1,237,816
Current portion of other long-term debt	175,000	175,000
Accrued liabilities	5,675,883	7,141,353
Total current liabilities	$ 15,627,353	$ 19,740,846
Long-Term Debt	22,023,118	9,683,965
Accrued Postretirement Benefits	36,611,347	36,262,992
Accrued Pension Expense	13,356,051	13,241,529
Stockholders' Equity:		
Capital Stock, par value $2.50 per share, one vote per share -		
Authorized 10,000,000 shares, Issued and Outstanding 2,598,325		
shares at 3/31/2013 and 2,596,047 shares at 12/31/2012	$ 6,495,812	$ 6,490,117
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 and Outstanding		
1,415,309 shares at 3/31/2013 and 1,417,587 shares at 12/31/2012	3,538,273	3,543,968
Additional paid-in-capital	2,485,125	2,485,125
Retained earnings	95,275,157	97,214,376
Accumulated other comprehensive loss	(7,201,994)	(7,374,773)

Total stockholders' equity	$	100,592,373	$	102,358,813
	$	188,210,242	$	181,288,145
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, 2013 and 2012 (Unaudited)

		2013			2012	
NET SALES	$	27,969,557		$	27,998,094	
COST OF SALES (includes $303,453 in 2013 and $-0- in 2012 accumulated other comprehensive income reclassifications for net periodic pension and postretirement costs)		30,174,023			27,488,126	
Gross profit (loss) from operations	$	(2,204,466	)	$	509,968	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (includes $215,326 in 2013 and $-0- in 2012 accumulated other comprehensive income reclassifications for net periodic pension and postretirement costs)		4,294,005			4,034,426	
Loss from operations	$	(6,498,471	)	$	(3,524,458	)
OTHER INCOME (EXPENSE):						
Interest income	$	34,859		$	27,892	
Interest expense		(47,961	)		(100,049	)
Gain on sale of equity investments (includes $3,069,284 in 2013 and $415,530 in 2012 accumulated other comprehensive income reclassifications for unrealized net gains on available-for-sale securities)		3,069,284			415,530	
Dividend income		748,736			1,209	
Other, net		4,334			65,541	
	$	3,809,252		$	410,123	
Loss before benefit from income taxes	$	(2,689,219	)	$	(3,114,335	)
BENEFIT FROM INCOME TAXES (includes $1,020,000 in 2013 and $168,000 in 2012 income tax expense from reclassification items)		(750,000	)		(875,000	)
NET LOSS	$	(1,939,219	)	$	(2,239,335	)
RETAINED EARNINGS, beginning of period		97,214,376			97,751,202	
RETAINED EARNINGS, end of period	$	95,275,157		$	95,511,867	
Basic loss per share	$	(0.48	)	$	(0.56	)

Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended March 31, 2013 and 2012 (Unaudited)

		2013			2012	
NET LOSS	$	(1,939,219	)	$	(2,239,335	)
OTHER COMPREHENSIVE INCOME, net of deferred tax						

UNREALIZED APPRECIATION ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense of $1,136,000 and $1,720,000 for 2013 and 2012, respectively)	$	1,703,284	$	2,575,530
RECLASSIFICATION ADJUSTMENT FOR SALE OF SECURITIES INCLUDED IN NET LOSS (Net of deferred tax expense of $1,228,000 and $168,000 for 2013 and 2012, respectively)		(1,841,284)		(247,530)
PENSION AND POSTRETIREMENT, PRIOR SERVICE COST (Net of deferred tax expense (benefit) of $(5,000) and $-0- for 2013 and 2012, respectively)		6,600		-
RECLASSIFICATION ADJUSTMENT FOR PENSION AND POSTRETIREMENT NET (GAIN) LOSS (Net of deferred tax expense (benefit) of $(203,000) and $-0- for 2013 and 2012, respectively)		304,179		-
TOTAL OTHER COMPREHENSIVE INCOME, net of deferred tax	$	172,779	$	2,328,000
COMPREHENSIVE INCOME (LOSS)	$	(1,766,440)	$	88,665

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, 2013 and 2012 (Unaudited)

	2013	2012
OPERATING ACTIVITIES:		
Net loss	$(1,939,219)	$(2,239,335)
Adjustments to reconcile net loss to		
net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	2,847,311	2,889,860
Deferred income taxes	(73,000)	(22,000)
Gain on disposal of assets	(16,572)	(7,285)
Realized gain on sale of equity investments	(3,069,284)	(415,530)
Postretirement benefits and pension expense	981,656	927,183
Change in assets and liabilities:		
Receivables, net	(1,012,547)	684,575
Inventories	(1,313,613)	(1,384,013)
Refundable income taxes	(527,771)	(853,000)
Prepaid expenses	(588,406)	(485,345)
Other assets	(653)	(250)
Accounts payable and accrued liabilities	(3,330,088)	1,801,098
Net cash provided by (used for) operating activities	$(8,042,186)	$895,958
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	$(7,614,086)	$(1,592,852)
Proceeds from disposals of property, plant and equipment	40,608	14,311
Payment for purchases of equity investments	(305,436)	-
Proceeds from disposals of equity investments	3,598,968	1,053,030
Net cash used for investing activities	$(4,279,946)	$(525,511)
FINANCING ACTIVITIES:		
Increase in revolving loan, net	$8,461,032	$1,979,375
Proceeds from bank loans	4,472,950	-
Payments on bank loans	(357,143)	(720,379)
Payments on other long-term debt	(46,931)	(44,646)
Cash dividends paid	(923,136)	(1,846,272)
Net cash provided by (used for) financing activities	$11,606,772	$(631,922)
Net decrease in cash and cash equivalents	$(715,360)	$(261,475)
Cash and Cash Equivalents, beginning of year	1,440,959	1,123,870
Cash and Cash Equivalents, end of period	$725,599	$862,395
Supplemental disclosures:		
Interest paid, net of amount capitalized	$47,961	$100,049
Income tax refund	$149,229	$-
Capital equipment additions included in accounts payable	$106,102	$170,717

See accompanying Notes to the Condensed Consolidated Financial Statements

The Monarch Cement Company and
Subsidiaries
Notes to the
Condensed Consolidated Financial Statements
March 31, 2013 and 2012 (Unaudited), and
December 31, 2012

1. The Monarch Cement Company (Monarch) is principally engaged in the manufacture and sale of portland cement. The marketing area for Monarch's products consists primarily of the State of Kansas, the State of Iowa, southeast Nebraska, western Missouri, northwest Arkansas and northern Oklahoma. Sales are made primarily to contractors, ready-mixed concrete plants, concrete products plants, building materials dealers and governmental agencies. Subsidiaries of Monarch (which together with Monarch are referred to herein as the "Company") sell ready-mixed concrete, concrete products and sundry building materials within Monarch's marketing area.

   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.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The guidance became effective for the Company beginning January 1, 2013 and did not have a material impact on our disclosures or our consolidated financial statements.

New Accounting Standards Issued But Not Yet Adopted

There are currently no accounting standards that have been issued and not yet adopted by the Company that are expected to have a significant impact on the Company's financial position, results of operations and cash flows upon adoption.

2. Certain reclassifications have been made to the 2012 financial statements to conform to the current year presentation. These reclassifications had no effect on net earnings.

3. During the economic downturn we substantially reduced our workforce in the construction contract division keeping primarily key personnel on staff. In 2012, we significantly increased the number of construction contracts we were awarded, requiring a larger skilled workforce than we had in place. Finding the personnel with the needed skills proved challenging at best, requiring additional training of new personnel and, in some cases, contracting out work we had intended to perform in house in an attempt to meet construction deadlines. These factors continued to result in cost overruns and gross profit declines in our Ready Mixed Concrete Business during the first quarter ending March 31, 2013. The change in estimates in construction contracts resulted in a $1.5 million reduction in net income recognized during the first quarter of 2013.

4.

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. Our Ready-Mixed Concrete Business includes precast concrete construction which involves short-term and long-term contracts. Short-term contracts for specific projects are generally of three to six months in duration. Long-term contracts relate to specific projects with terms in excess of one year from the contract date. Revenues for these contracts are recognized 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. Full provision is made for any anticipated losses. 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, 2013, the amount of billed retainage which is included in accounts receivable was approximately $96,900, 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, 2012 was approximately $170,000. The amount of unbilled revenue in accounts receivable was approximately $1,773,059 and $1,231,000 at March 31, 2013 and December 31, 2012, respectively. Unbilled revenue contained approximately $524,000 and $526,000 of not-currently-billable retainage at March 31, 2013 and December 31, 2012, respectively, which is expected to be collected within one year.

5. As of March 31, 2013, the amount of accounts payable related to property, plant and equipment was $106,102 compared to December 31, 2012 which was $157,126.

6. We did not incur a temporary last-in, first-out (LIFO) liquidation gain during the three months ended March 31, 2013. For the three months ended March 31, 2012, we incurred a temporary LIFO liquidation gain due to reductions in finished cement and work in process inventory of $0.5 million which was restored by the end of the year. The temporary LIFO liquidation gain was deferred as a component of accrued liabilities.

7. Corporate assets for 2013 and 2012 include cash and cash equivalents, refundable income taxes, deferred income taxes, investments and other assets. Following is a summary of the Company's business segment results for the periods indicated:

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
For the Three Months Ended 03/31/2013				
Sales to unaffiliated customers	$8,444,664	$19,524,893	$ -	$27,969,557
Intersegment sales	3,826,499	-	(3,826,499)	-
Total net sales	$12,271,163	$19,524,893	$(3,826,499)	$27,969,557
Loss from operations	$(2,717,570)	$(3,780,901)		$(6,498,471)
Other income, net				3,809,252
Loss before income taxes				$(2,689,219)
Capital Expenditures	$4,667,224	$2,895,838		$7,563,062
For the Three Months Ended 03/31/2012				
Sales to unaffiliated customers	$9,203,922	$18,794,172	$ -	$27,998,094
Intersegment sales	3,779,029	-	(3,779,029)	-
Total net sales	$12,982,951	$18,794,172	$(3,779,029)	$27,998,094
Loss from operations	$(1,451,003)	$(2,073,455)		$(3,524,458)
Other income, net				$410,123
Loss before income taxes				$(3,114,335)
Capital Expenditures	$655,059	$1,022,246		$1,677,305

Balance as of 03/31/2013			
Identifiable Assets	$93,310,586	$48,167,739	$141,478,325
Corporate Assets			46,731,917
			$188,210,242
Balance as of 12/31/12			
Identifiable Assets	$88,491,938	$45,335,459	$133,827,397
Corporate Assets			47,460,748
			$181,288,145

8. Realized gains (losses) on equity investments are computed using the specific identification method. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

   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 supported by little or no market activity and are significant to the fair value of the assets or liabilities.

   Cash and cash equivalents have carrying values that approximate fair value using Level 1 prices. Receivables, accounts payable, and short and long-term debt have carrying values that approximate fair values using Level 2 inputs. 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 (loss). 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 (Level 1 prices). 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 carrying value.

The aggregate amount of equity securities carried at cost, for which the Company has not elected the fair value option, was $2.6 million as of March 31, 2013. The remaining $24.3 million in equity security investments are stated at fair value. As of December 31, 2012, the aggregate amount of equity securities carried at cost was $2.6 million and the remaining $24.8 million in equity security investments were stated at fair value. The following table presents the fair value of the Company's available-for-sale equity securities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2013 and December 31, 2012:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
March 31, 2013:				
Assets:	Fair Value	(Level 1)	(Level 2)	(Level 3)
Available-for-sale equity securities				

Cement industry	$ 13,025,415	$ 13,025,415