

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

MONARCH CEMENT CO
Form 10-Q
November 14, 2002

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, 2002, 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 incorporation or organization)	(I.R.S. Employer 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

As of November 5, 2002, there were 2,341,243 shares of Capital Stock, par value \$2.50 per share outstanding and 1,685,715 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,

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

2001 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 2001 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, 2002 and December 31, 2001

ASSETS	2 0 0 2	2 0 0 1
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,671,290	\$ 3,224,861
Short-term investments, at cost which approximates market	2,241	164,073
Receivables, less allowances of \$500,000 in 2002 and \$493,000 in 2001 for doubtful accounts	20,517,570	13,262,283
Inventories, priced at cost which is not in excess of market-		
Cost determined by last-in, first-out method-		
Finished cement	\$ 1,535,129	\$ 1,813,898
Work in process	779,809	2,629,984
Building products	1,228,185	1,159,676
Cost determined by first-in, first-out method-		
Fuel, gypsum, paper sacks and other	4,126,417	4,119,068
Cost determined by average method-		
Operating and maintenance supplies	8,272,096	7,867,711
Total inventories	\$ 15,941,636	\$ 17,590,337
Refundable federal and state income taxes	-	474,867
Deferred income taxes	505,000	505,000
Prepaid expenses	232,620	66,193
Total current assets	\$ 40,870,357	\$ 35,287,614
 PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and depletion of \$99,728,291 in 2002 and \$92,458,417 in 2001	 82,290,235	 81,441,837
DEFERRED INCOME TAXES	2,415,000	2,305,000
OTHER ASSETS	10,754,322	7,603,212
	\$136,329,914	\$126,637,663
 LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,843,787	\$ 6,636,841
Bank loan payable	5,000,000	5,000,000
Current portion of advancing term loan	2,500,000	-
Accrued liabilities	5,220,453	5,162,357
Total current liabilities	\$ 19,564,240	\$ 16,799,198
 LONG-TERM DEBT	 23,495,819	 19,899,655
ACCRUED POSTRETIREMENT BENEFITS	8,708,152	8,442,462
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,953,402	2,453,827

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

STOCKHOLDERS' INVESTMENT:

Capital stock, par value \$2.50 per share-		
Authorized 10,000,000 shares, Issued		
2,333,724 shares at 9/30/2002 and		
2,303,362 shares at 12/31/2001	\$ 5,834,310	\$ 5,758,405
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		
1,693,234 shares at 9/30/2002 and 1,723,596		
shares at 12/31/2001	4,233,085	4,308,990
Retained earnings	71,755,906	67,900,126
Accumulated other comprehensive income	785,000	1,075,000
Total stockholders' investment	\$ 82,608,301	\$ 79,042,521
	\$136,329,914	\$126,637,663

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, 2002 and 2001
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2002	2001	2002	2001
NET SALES	\$41,728,112	\$39,618,762	\$100,008,932	\$93,700,667
COST OF SALES	32,752,459	32,667,367	83,347,514	79,109,821
Gross profit from operations	\$ 8,975,653	\$ 6,951,395	\$ 16,661,418	\$14,590,846
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,860,974	2,459,345	8,173,981	7,292,735
Income from operations	6,114,679	\$ 4,492,050	\$ 8,487,437	\$ 7,298,111
OTHER INCOME (EXPENSE):				
Interest income	\$ 84,184	\$ 114,371	\$ 210,877	\$ 354,618
Interest expense	(288,433)	273,069	(754,574)	(45,444)
Other, net	(31,336)	75,444	(127,177)	455,192
	\$ (235,585)	\$ 462,884	\$ (670,874)	\$ 764,366
Income before taxes on income	\$ 5,879,094	\$ 4,954,934	\$ 7,816,563	\$ 8,062,477
PROVISION FOR TAXES ON INCOME	1,765,000	1,600,000	2,350,000	2,600,000
NET INCOME	\$ 4,114,094	\$ 3,354,934	\$ 5,466,563	\$ 5,462,477
RETAINED EARNINGS, beg. of period	68,447,203	64,659,304	67,900,126	64,117,194
Less cash dividends	805,391	809,951	1,610,783	1,612,417

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Less purchase and retirement of treasury stock	-	291,825	-	1,054,792
RETAINED EARNINGS, end of period	\$71,755,906	\$66,912,462	\$71,755,906	\$66,912,462
Basic earnings per share	\$1.02	\$.83	\$1.36	\$1.35
Cash dividends per share	\$.20	\$.20	\$.40	\$.40

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and the Nine Months Ended September 30, 2002 and 2001 (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
NET INCOME	\$ 4,114,094	\$ 3,354,934	\$ 5,466,563	\$ 5,462,477
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net of deferred tax expense (benefit) of \$(240,000), \$(220,000), \$(190,000) and \$35,000, respectively)	(360,000)	(320,000)	(290,000)	55,000
COMPREHENSIVE INCOME	\$ 3,754,094	\$ 3,034,934	\$ 5,176,563	\$ 5,517,477

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, 2002 and 2001 (Unaudited)

	2002	2001
OPERATING ACTIVITIES:		
Net income	\$ 5,466,563	\$ 5,462,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion	8,227,086	6,352,925
Minority interest in earnings (losses) of subsidiaries	171,357	(140,049)
Deferred income taxes, long-term	-	35,000
Gain on disposal of assets	(87,967)	(154,198)
Realized gain on sale of other investments	-	(99,088)
Change in assets and liabilities, net of acquisitions:		
Receivables, net	(7,255,287)	(9,693,773)
Inventories	1,648,701	3,553,819
Refundable federal and state income taxes	474,867	(100,000)
Prepaid expenses	(166,427)	(167,809)
Other assets	10,546	(67,178)
Accounts payable and accrued liabilities	1,553,325	624,954
Accrued postretirement benefits	265,690	239,646
Accrued pension expense	(119,854)	(80,682)

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Net cash provided by operating activities	\$ 10,188,600	\$ 5,766,044
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$ (7,352,814)	\$ (37,525,961)
Proceeds from disposals of property, plant and equipment	209,314	302,709
Payment for purchases of equity investments	(1,193,469)	(2,356,088)
Proceeds from disposals of equity investments	-	229,315
Decrease in short-term investments, net	161,832	2,547,225
Net purchases of subsidiaries' stock	(2,421,057)	(1,040,400)
Net cash used for investing activities	\$ (10,596,194)	\$ (37,843,200)
FINANCING ACTIVITIES:		
Proceeds from bank loans	\$ 4,090,331	\$ 29,890,112
Cash dividends paid	(3,221,566)	(3,252,775)
Subsidiaries' dividends paid to minority interest	(14,742)	(11,057)
Purchase of treasury stock	-	(1,225,136)
Net cash provided by financing activities	\$ 854,023	\$ 25,401,144
Net increase (decrease) in cash and cash equivalents	\$ 446,429	\$ (6,676,012)
CASH AND CASH EQUIVALENTS, beginning of year	3,224,861	9,451,281
CASH AND CASH EQUIVALENTS, end of period	\$ 3,671,290	\$ 2,775,269
Interest paid, net of amount capitalized	\$771,430	\$40,517
Income taxes paid	\$341,941	\$1,334,150

See notes to condensed consolidated financial statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2002 and 2001 (Unaudited), and December 31, 2001

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 and 4,044,321 in the third quarter of 2002 and 2001, respectively, and 4,026,958 and 4,056,142 in the first nine months of 2002 and 2001, respectively. 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 ended September 30, 2002 and 2001 and December 31, 2001 (in thousands):

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

		Three Months Ended	Nine Months Ended		
		9/30/02	9/30/01	9/30/02	9/30/01
Sales to Unaffiliated Customers-					
Industry:	Segment A	\$17,491	\$18,430	\$39,331	\$38,884
	Segment B	24,237	21,189	60,678	54,817
Intersegment Sales-					
Industry:	Segment A	3,188	2,550	8,360	7,275
	Segment B	49	51	85	61
Operating Profit-					
Industry:	Segment A	4,250	3,993	6,318	8,031
	Segment B	1,864	500	2,169	(732)
Capital Expenditures-					
Industry:	Segment A	1,158	8,894	2,634	33,363
	Segment B	1,243	710	4,719	4,163
				Balance as of	
				9/30/02	12/31/01
Identifiable Assets-					
Industry:	Segment A			\$79,453	\$79,454
	Segment B			39,529	32,906
Corporate Assets-				17,348	14,278

4. Revenue is earned and recorded when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. Accordingly, 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 receivable within one year.

5. Property, plant and equipment increased by approximately \$7,353,000 during the first nine months of 2002 due to the modernization and expansion program currently in process at the cement manufacturing facility and the upgrade of equipment in the ready-mixed concrete and sundry building materials segment. This includes approximately \$62,000 of capitalized interest expense.

6. In January 2001, Monarch entered into an unsecured credit commitment with a bank. This commitment consists of a \$30,000,000 advancing term loan maturing December 31, 2005 and a \$5,000,000 line of credit maturing December 31, 2002. These loans each bear floating interest rates based on Chase Manhattan Bank prime rate less 1.25%. The loan agreement contains a financial covenant related to net worth with which the Company was in compliance at the end of the third quarter of 2002. As of September 30, 2002, Monarch had borrowed \$23,989,986 on the advancing term loan and \$5,000,000 on the line of credit leaving a balance available on the advancing term loan of \$6,010,014. The average daily interest rate paid by Monarch during the third quarter and the first nine months of 2002 was 3.5%.

7. Certain reclassifications have been made to the September 30, 2001 consolidated income statements to conform to the September 30, 2002 consolidated income statement presentation. These reclassifications had no effect on net earnings.

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES

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

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

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, the adequacy for 2002 of our kiln capacity, our forecasted cement sales, the source of funding for the repayment of our bank financing, the proposed increase in our bank financing, the proposed use of loan proceeds and the impact of new FASB accounting rules 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; and
- ? demand for our Company's products.

LIQUIDITY

We are able to meet our cash needs primarily from a combination of operations and bank loans. Cash increased during the first nine months of 2002 primarily due to income from operations and bank loans.

In January 2001, we entered into an unsecured credit commitment with a bank. This commitment consists of a \$30,000,000 advancing term loan maturing December 31, 2005 and a \$5,000,000 line of credit maturing December 31, 2002. These loans each bear floating interest rates based on Chase Manhattan Bank prime rate less 1.25%. The loan agreement contains a financial covenant related to net worth with which the Company was in compliance at the end of the third quarter of 2002. As of September 30, 2002, we had borrowed \$23,989,986 on the advancing term loan and \$5,000,000 on the line of credit leaving a balance available on the advancing term loan of \$6,010,014. We have used these loans to help finance the expansion project at our cement manufacturing facility. We anticipate that the line of credit maturing December 31, 2002 will be paid using funds from operations or additional 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, 2002 were \$136,329,914, an increase of \$9,692,251 since December 31, 2001. The majority of this increase is the result of an increase in receivables caused by the seasonality of our business (see Seasonality below). Other assets increased due to recent acquisitions.

Indebtedness increased \$6,096,164 during the first nine months of 2002

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

due primarily to capital expenditures and acquisitions.

Stockholder's equity increased 4.5% during the first nine months of 2002. Basic earnings were \$1.36 per share, and dividends declared were \$.40 per share through September 30, 2002.

CAPITAL RESOURCES

As of the end of 2001, we had completed the installation of a precalciner and clinker cooler on one of our kilns. We had also started preliminary work on a precalciner and clinker cooler for our second preheater kiln and the design of a new coal firing system to fuel the precalciners on both kilns. We anticipate that we will have received and paid for the majority of the precalciner, clinker cooler and coal firing equipment prior to year-end. We have decided to postpone the installation of this equipment until market projections indicate the need for additional kiln capacity. We will continue to evaluate market conditions, proposed capital expenditures and the Company's cash resources as we finalize the timing of expansion projects and loan requirements.

Results of Operations

Cement, ready-mixed concrete and sundry building materials are used in residential, commercial and governmental construction. Although overall demand for our products by each of these segments remains strong, it varies within our market area. In some areas of our market, residential construction is down while commercial and governmental needs are up. In other areas, residential demand is up and commercial and governmental use is down. For the balance of this year, we continue to see variations in demand within our market area. Low interest rates have helped to prevent sizeable drops in construction activities. Major construction projects, including schools, hospitals, waste water treatment plants, and detention facilities are currently underway in our market area. These projects, which use sizeable amounts of cement, ready-mixed concrete and concrete products, contribute to the overall strong demand for our products.

Consolidated net sales for the quarter ended September 30, 2002, increased by \$2,109,350 when compared to the quarter ended September 30, 2001. Sales of cement were lower by \$938,245, and sales of ready-mixed concrete and sundry building materials were higher by \$3,047,595. Increased construction activity and favorable weather conditions made it possible to increase the sales volume of ready-mixed concrete and sundry building materials resulting in higher net sales for this segment.

The gross profit rate for the three months ended September 30, 2002 was 21.5% versus 17.5% for the three months ended September 30, 2001. This increase is primarily due to increased utilization of equipment made possible by higher sales volumes of ready-mixed concrete and other operating efficiencies.

Selling, general, and administrative expenses increased by 16.3% during the third quarter of 2002 compared to the third quarter of 2001. Overall increases in payroll, insurance and bad debts primarily in the ready-mixed concrete and sundry building material segment contributed to this increase, although no single factor increased materially.

Interest expense increased \$561,502 during the third quarter of 2002 as compared to the third quarter of 2001 primarily due to the increase in loans outstanding and the capitalization of interest during the third quarter of 2001. The Company utilized these loans for capital improvements.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

The effective tax rates for the third quarter of 2002 and 2001 were 30.0% and 32.3%, 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 (loss).

Consolidated net sales for the nine months ended September 30, 2002 were \$100,008,932, an increase of \$6,308,265 as compared to the nine months ended September 30, 2001. Sales of cement were higher by \$447,537 and sales of ready-mixed concrete and sundry building materials were higher by \$5,860,728. Increased construction activity and favorable weather conditions made it possible to increase the sales volume of ready-mixed concrete and sundry building materials resulting in higher net sales for this segment. Mild, dry weather in the Company's market area during the first half of 2002 allowed construction projects to proceed. In contrast, during the first half of 2001, wet weather slowed construction projects, decreasing sales of both cement and ready-mixed concrete.

The gross profit rate for the first nine months of 2002 was 16.7% versus 15.6% for the first nine months of 2001. This increase is primarily due to increased utilization of equipment made possible by higher sales volumes of ready-mixed concrete and other operating efficiencies.

Selling, general, and administrative expenses increased 12.1% for the first nine months of 2002 compared to the first nine months of 2001. Overall increases in payroll, insurance and bad debts primarily in the ready-mixed concrete and sundry building materials segment contributed to this increase, although no single factor increased materially.

Interest income decreased \$143,741 for the first nine months of 2002 as compared to the first nine months of 2001. In 2001, the Company received interest on amended state income tax returns. A reduction in short-term investments as the Company utilized these funds for capital improvements also contributed to the decline in interest income.

Interest expense increased \$709,130 for the first nine months of 2002 as compared to the first nine months of 2001 primarily due to the increase in bank loans outstanding and the capitalization of interest in 2001. The Company utilized these loans for capital improvements.

Other, net decreased \$582,369 during the first nine months of 2002 as compared to the first nine months of 2001 primarily due to a reduction in subsidiary losses allocated to minority interest and a reduction in the gains on the sales of equipment.

The effective tax rates for the nine months ended September 30, 2002 and 2001 were 30.1% and 32.2%, 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 (loss).

The Financial Accounting Standards Board (FASB) recently issued four new accounting rules. Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," effective July 1, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets," effective for the 2002 calendar year, and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the 2002 calendar year, are not expected to have a material effect on the Company's financial position or results of operations. The Company has not yet assessed the impact, if any, of adopting SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for the 2003 calendar year. In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" which is not expected to have a material effect on the Company's

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

financial position or results of operations.

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 production costs. The continual need to control production costs encourages overproduction during periods of reduced demand.

Interest rates on the Company's bank loans are variable and are based on the Chase Manhattan Bank prime rate less 1.25%.

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 kilns. 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, such as occurred in late 2000 and early 2001, create an above average increase in manufacturing costs. As gas prices decreased, the Company negotiated a set purchase price for the majority of its projected natural gas needs. 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.

DISCLOSURE CONTROLS AND PROCEDURES/INTERNAL CONTROLS

(a) Based on an evaluation of disclosure controls and procedures for the

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

period ended September 30, 2002 conducted by our President and Chief Financial Officer, we conclude that our disclosure controls and procedures are effective. The President and Chief Financial Officer conducted this evaluation on October 22, 2002.

- (b) In August 2002, independent public accountants studied and evaluated the Company's internal control structure in connection with the review of our interim financial statements. This was not intended to be a complete review of all our internal controls. There were no significant changes in our internal control or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation, nor any significant deficiencies or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions were taken.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) There are no exhibits required to be filed for the quarter ended September 30, 2002.
- (b) Reports on Form 8-K. There was one report required to be filed on Form 8-K during the quarter for which this report is being filed (July 1, 2002 to September 30, 2002, 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 14, 2002

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

Date November 14, 2002

/s/ Lyndell G. Mosley
Lyndell G. Mosley, CPA
Chief Financial Officer and
Assistant Secretary-Treasurer

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

302 CERTIFICATIONS

I, Walter H. Wulf, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Monarch Cement Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

Date: November 14, 2002

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

I, Lyndell G. Mosley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Monarch Cement Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

Edgar Filing: MONARCH CEMENT CO - Form 10-Q

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Lyndell G. Mosley
Lyndell G. Mosley, CPA
Chief Financial Officer and
Assistant Secretary-Treasurer