MONARCH CEMENT CO
Form 10-Q
November 09, 2012

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 September 30, 2012, 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 October 22, 2012, there were 2,583,709 shares of Capital Stock, par value $2.50 per share outstanding and 1,429,925 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 condensed 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, 2011 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 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
September 30, 2012 (Unaudited) and December 31, 2011

ASSETS	2012	2011
Current Assets:		
Cash and cash equivalents	$949,695	$1,123,870
Restricted cash	2,570,505	-
Receivables, less allowances of $737,000 in 2012 and		
$670,000 in 2011 for doubtful accounts	21,431,607	15,970,034
Inventories, priced at cost which is not in excess of market-		
Finished cement	$3,898,183	$3,963,233
Work in process	2,392,447	1,353,361
Building products	4,625,137	4,236,266
Fuel, gypsum, paper sacks and other	6,717,052	6,416,618
Operating and maintenance supplies	12,183,504	11,892,887
Total inventories	$29,816,323	$27,862,365
Refundable federal and state income taxes	16,805	353,199
Deferred income taxes	750,000	750,000
Prepaid expenses	698,719	631,461
Total current assets	$56,233,654	$46,690,929
Property, Plant and Equipment, at cost, less		
accumulated depreciation and depletion of $190,551,539		
in 2012 and $182,427,598 in 2011	82,614,987	86,719,411
Deferred Income Taxes	15,741,410	18,416,410
Investments	22,670,650	20,026,704
Other Assets	1,535,525	1,801,356
	$178,796,226	$173,654,810
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$8,297,110	$5,451,853
Line of credit payable	5,718,954	4,844,469
Current portion of term loan	2,991,621	2,920,023
Current portion of other long-term debt	175,000	175,000
Accrued liabilities	6,117,885	7,883,704
Total current liabilities	$23,300,570	$21,275,049
Long-Term Debt	4,906,806	7,303,137
Accrued Postretirement Benefits	34,156,316	33,327,243
Accrued Pension Expense	12,754,189	13,676,003
Stockholders' Equity:		
Capital Stock, par value $2.50 per share, one vote per share -		
Authorized 10,000,000 shares, Issued and Outstanding 2,583,709		
shares at 9/30/2012 and 2,569,831 shares at 12/31/2011	$6,459,273	$6,424,578
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		
1,429,925 shares at 9/30/2012 and 1,443,803 shares at 12/31/2011	3,574,812	3,609,507
Additional paid-in-capital	2,485,125	2,485,125
Retained earnings	99,262,827	97,751,202

Accumulated other comprehensive loss	(8,103,692)	(12,197,034)
Total stockholders' equity	$103,678,345	$98,073,378
	$178,796,226	$173,654,810

See accompanying Notes to the Condensed Consolidated Financial Statements

The Monarch Cement Company and Subsidiaries
Condensed Consolidated Statements of Income (Loss) and Retained Earnings
For the Three Months and the Nine Months Ended September 30, 2012 and 2011 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
NET SALES	$ 42,261,929	$ 38,565,133	$ 111,425,525	$ 87,359,985
COST OF SALES	38,640,601	32,705,513	98,829,838	80,997,816
Gross profit from operations	$ 3,621,328	$ 5,859,620	$ 12,595,687	$ 6,362,169
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,093,926	3,865,048	12,025,693	11,719,748
Income (loss) from operations	$ (472,598)	$ 1,994,572	$ 569,994	$ (5,357,579)
OTHER INCOME (EXPENSE):				
Interest income	$ 29,117	$ 46,583	$ 86,989	$ 127,222
Interest expense	(121,962)	(159,071)	(359,659)	(380,048)
Gain on sale of equity investments	3,605,597	-	4,173,141	5,197,438
Loss on impairment of equity investments	-	(415,287)	-	(415,287)
Dividend income	19,014	100,073	44,801	207,256
Other, net	76,206	(83,214)	142,630	174,141
	$ 3,607,972	$ (510,916)	$ 4,087,902	$ 4,910,722
Income (loss) before taxes	$ 3,135,374	$ 1,483,656	$ 4,657,896	$ (446,857)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	875,000	415,000	1,300,000	(125,000)
NET INCOME (LOSS)	$ 2,260,374	$ 1,068,656	$ 3,357,896	$ (321,857)
RETAINED EARNINGS, beg. of period	97,925,589	97,939,977	97,751,202	102,270,564
Less cash dividends	923,136	926,984	1,846,271	1,874,301
Less purchase and retirement of capital stock	-	241,312	-	2,234,069
RETAINED EARNINGS, end of period	$ 99,262,827	$ 97,840,337	$ 99,262,827	$ 97,840,337
Basic earnings (losses) per share	$ 0.56	$ 0.27	$ 0.84	$ (0.08)
Cash dividends per share	$ 0.23	$ 0.23	$ 0.46	$ 0.46

Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three Months and the Nine Months Ended September 30, 2012 and 2011 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
NET INCOME (LOSS)	$ 2,260,374	$ 1,068,656	$ 3,357,896	$ (321,857)
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE FOR SALE SECURITIES (Net				

of deferred tax expense (benefit) of $1,836,000,				
$(2,032,000), $3,776,000, and $(800,000), respectively	2,759,597	(3,043,287)	5,667,141	(1,197,849)
RECLASSIFICATION ADJUSTMENT FOR				
SALE OF SECURITIES INCLUDED IN				
NET INCOME (LOSS) (Net of deferred				
tax (benefit) expense of $1,440,000, $0,				
$1,668,000, and $2,080,000, respectively)	(2,165,597)	-	(2,505,141)	(3,117,438)
RECLASSIFICATION ADJUSTMENT FOR				
WRITE-DOWN OF SECURITIES INCLUDED				
IN NET INCOME (LOSS) (Net of deferred				
tax (benefit) expense of $0, $(168,000),				
$0, and $(168,000), respectively)	-	247,287	-	247,287
MINIMUM PENSION LIABILITY (Net of deferred tax				
expense of $135,000, $0, $403,000, and $0, respectively)	200,944	-	604,323	-
POSTRETIREMENT LIABILITY (Net of deferred tax				
expense of $74,000, $0, $218,000, and $0, respectively)	110,969	-	327,019	-
COMPREHENSIVE INCOME (LOSS)	$ 3,166,287	$ (1,727,344)	$ 7,451,238	$ (4,389,857)

See accompanying Notes to the Condensed Consolidated Financial Statements

The Monarch Cement Company And Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and 2011 (Unaudited)

	2012	2011
OPERATING ACTIVITIES:		
Net income (loss)	$3,357,896	$(321,857)
Adjustments to reconcile net income (loss) to		
net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	8,906,107	8,553,737
Deferred income taxes	(54,000)	758,300
Gain on disposal of assets	(52,225)	(250,501)
Realized gain on sale of equity investments	(4,173,141)	(5,197,438)
Realized loss on impairment of equity investments	-	415,287
Postretirement benefits and pension expense	1,459,601	1,698,305
Change in assets and liabilities:		
Receivables, net	(5,461,573)	(5,794,228)
Inventories	(1,953,958)	2,979,281
Refundable income taxes	336,394	(1,135,677)
Prepaid expenses	(67,258)	(925,177)
Other assets	46,376	2,250
Accounts payable and accrued liabilities	2,922,848	454,034
Net cash provided by operating activities	$5,267,067	$1,236,316
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	$(4,592,850)	$(5,601,076)
Proceeds from disposals of property, plant and equipment	65,709	287,924
Payment for acquisition of business, net of cash acquired	-	(534,392)
Payment for purchases of equity investments	-	(2,389,924)
Proceeds from disposals of equity investments	6,799,194	7,878,129
Decrease in short-term investments, net	-	(10,166)
Net cash provided by (used for) investing activities	$2,272,053	$(369,505)
FINANCING ACTIVITIES:		
Increase in line of credit, net	$874,486	$6,388,069
Payments on bank loans	(2,178,255)	(2,238,756)
Payments on other long-term debt	(146,478)	(581,401)
Net increase in restricted cash	(2,570,505)	-
Cash dividends paid	(3,692,543)	(3,720,289)
Purchase of capital stock	-	(2,483,069)
Net cash used for financing activities	$(7,713,295)	$(2,635,446)
Net decrease in cash and cash equivalents	$(174,175)	$(1,768,635)
Cash and Cash Equivalents, beginning of year	1,123,870	2,695,267
Cash and Cash Equivalents, end of period	$949,695	$926,632
Supplemental disclosures:		
Interest paid, net of amount capitalized	$359,659	$380,048
Income taxes paid, net of refunds	$ 1,017,606	$385,527
Capital equipment additions included in accounts payable	$89,126	$75,823
Non-cash investing activities:		

Issuance of 105,750 shares of capital stock		
related to acquisition of business	$-	$2,749,500
Note payable related to acquisition of business	$-	$927,443

See accompanying Notes to the Condensed Consolidated Financial Statements

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012 and 2011 (Unaudited), and December 31, 2011

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 May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS", which updated the guidance in ASC Topic 820. The amendments in this ASU result in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. The ASU also provides for certain changes in current GAAP disclosure requirements, for example with respect to the measurement of Level 3 assets and for measuring the fair value of an instrument classified in a reporting entity's shareholders' equity. The amendments in this update are to be applied prospectively. This guidance became effective for the Company beginning January 1, 2012 and did not have a material impact on 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 2011 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 resulted in cost overruns and gross profit declines in our Ready Mixed Concrete Business during the third quarter and the nine months ending September 30, 2012. As a result of the change in estimate in construction contracts, a loss of $2.7 million was recorded during the third quarter of 2012.

4. In February 2012, the Company entered into a new secured credit agreement with its current lender, BOKF, NA dba Bank of Oklahoma which consists of an approximately $9.0 million term loan maturing December 31, 2014 and a line of credit which permits revolving borrowings and letters of credit up to an aggregate of $15.0 million maturing December 31, 2012. In the credit agreement, the Company pledged its investment account held at BOKF, NA, receivable accounts and inventory as collateral for the term loan and revolving line of credit. During the third quarter of 2012, the Company sold some of the equity securities in its pledged investment account and the proceeds which were still in the settlement process at the end of September 2012 are shown as restricted cash since the withdrawal of the proceeds of the sale of any equity securities from the pledged investment account must be used to reduce the obligations of the Company to the lender per the terms of the secured credit agreement.

5. 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 September 30, 2012, the amount of billed retainage which is included in accounts receivable was approximately $225,000, all of which is expected to be collected within one year. The amount of billed retainage which was included in accounts receivable at December 31, 2011 was approximately $129,000. The amount of unbilled revenue in accounts receivable was approximately $2,596,000 and $802,000 at September 30, 2012 and December 31, 2011, respectively. Unbilled revenue contained approximately $349,000 and $125,000 of not-currently-billable retainage at September 30, 2012 and December 31, 2011, respectively, which is expected to be collected within one year.

6. As of September 30, 2012, the amount of accounts payable related to property, plant and equipment was $89,126 compared to $86,264 as of December 31, 2011.

   Depreciation, depletion and amortization related to manufacturing operations are recorded in Cost of Sales, those related to general operations are recorded in Selling, General and Administrative Expenses, and those related to non-operational activities are in Other, net on the Condensed Consolidated Statements of Income (Loss) and Retained Earnings.

7. We did not incur any temporary LIFO (last in first out) liquidation gain for the nine months or the three months ended September 30, 2012. During the nine months and the three months ended September 30, 2011, we incurred a $1.0 million temporary LIFO liquidation gain due to reductions in finished cement and work in process inventory which was restored by the end of 2011. The temporary LIFO liquidation gains were deferred as a component of accrued liabilities.

8. Corporate assets for 2012 and 2011 include cash and cash equivalents, restricted cash, deferred income taxes, refundable 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 9/30/12				
Sales to unaffiliated customers	$ 16,076,718	$ 26,185,211	$ -	$ 42,261,929
Intersegment sales	5,171,929	4,563	(5,176,492)	-
Total net sales	$ 21,248,647	$ 26,189,774	$ (5,176,492)	$ 42,261,929
Income (loss) from operations	$ 3,111,254	$ (3,583,852)		$ (472,598)
Other income, net				3,607,972
Income before income taxes				$ 3,135,374
Capital Expenditures	$ 1,029,625	$ 539,274		$ 1,568,899
For the Three Months Ended 9/30/11				
Sales to unaffiliated customers	$ 15,486,311	$ 23,078,822	$ -	$ 38,565,133
Intersegment sales	4,703,184	147	(4,703,331)	-
Total net sales	$ 20,189,495	$ 23,078,969	$ (4,703,331)	$ 38,565,133
Income from operations	$ 1,300,879	$ 693,693		$ 1,994,572
Other expense, net				$ (510,916)
Income before income taxes				$ 1,483,656
Capital Expenditures	$ 1,317,402	$ 1,820,450		$ 3,137,852

	Cement Business	Ready-Mixed Business	Adjustments Eliminations	Consolidated
For the Nine Months Ended 9/30/12				
Sales to unaffiliated customers	$ 39,088,091	$ 72,337,434	$ -	$ 111,425,525
Intersegment sales	14,341,367	4,563	(14,345,930)	-
Total net sales	$ 53,429,458	$ 72,341,997	$ (14,345,930)	$ 111,425,525
Income (loss) from operations	$ 5,397,900	$ (4,827,906)		$ 569,994
Other income, net				4,087,902
Income before income taxes				$ 4,657,896
Capital Expenditures	$ 2,719,271	$ 1,876,441		$ 4,595,712
For the Nine Months Ended 9/30/11				
Sales to unaffiliated customers	$ 34,483,956	$ 52,876,029	$ -	$ 87,359,985
Intersegment sales	10,614,907	147	(10,615,054)	-
Total net sales	$ 45,098,863	$ 52,876,176	$ (10,615,054)	$ 87,359,985
Loss from operations	$ (2,284,628)	$ (3,072,951)		$ (5,357,579)
Other income, net				4,910,722
Loss before income taxes				$ (446,857)
Capital Expenditures	$ 2,665,445	$ 2,998,959		$ 5,664,404
Balance as of 9/30/12				
Identifiable Assets	$86,333,786	$48,227,850		$134,561,636
Corporate Assets				44,234,590
				$178,796,226
Balance as of 12/31/11				
Identifiable Assets	$84,843,017	$46,340,254		$131,183,271
Corporate Assets				42,471,539
				$173,654,810

9. 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, restricted cash and cash equivalents have carrying values that approximate fair value using level 1 prices. Receivables, accounts payable 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 September 30, 2012. The remaining $20.1 million in equity security investments are stated at fair value. As of December 31, 2011, the aggregate amount of equity securities carried at cost was $2.6 million and the remaining $17.4 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 September 30, 2012 and December 31, 2011:

		Fair Value Measurements Using:		
September 30, 2012:		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Input
Assets:	Fair Value	(Level 1)	(Level 2)	(Level 3)
Available-for-sale equity securities				
Cement industry	$9,904,744	$9,904,744	$-	$ -
General building materials industry	5,226,177	5,226,177	-	-
Oil and gas refining and marketing industry	4,920,825	4,920,825	-	-
Total assets measured at fair value	$20,051,746	$20,051,746	$-	$ -
December 31, 2011:				
Assets:				
Available-for-sale equity securities				
Cement industry	$8,750,156	$8,750,156	$-	$ -
General building materials industry	4,583,882	4,583,882	-	-
Oil and gas refining and marketing industry	3,631,747	3,631,747	-	-
Residential construction industry	442,015	442,015	-	-
Total assets measured at fair value	$17,407,800	$17,407,800	$-	$ -

There were no transfers between levels and there were no significant changes in the valuation techniques during the period ended September 30, 2012. No reconciliation (roll forward) of the beginning and ending balances for Level 3 is presented since the Company does not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at either of the dates reported in the table above. The Company has no liabilities at either date requiring remeasurement to fair value on a recurring basis in the balance sheet. The Company has no additional assets or liabilities at either date requiring remeasurement to fair value on a non-recurring basis in the balance sheet.

The following table shows the unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual trade lots of securities have been in a continuous unrealized loss position at September 30, 2012 and December 31, 2011:

Available-for-sale equity securities	Less than 12 Months		12 Months or Greater		Total	
		Unrealized		Unrealized		Unrealized
September 30, 2012	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Cement industry	$-	$-	$14,000	$4,116	$14,000	$4,116
Total	$-	$-	$14,000	$4,116	$14,000	$4,116
December 31, 2011						
Cement industry	$ 517,188	$ 53,352	$ 12,900	$ 5,216	$ 530,088	$58,568
Residential construction industry	-	-	6,310	4,413	6,310	4,413
Total	$ 517,188	$ 53,352	$ 19,210	$ 9,629	$ 536,398	$62,981

The Company owns stock in two privately-owned companies accounted for by the cost method; one in the brick industry and the other in the ethanol production industry. These investments were evaluated at September 30, 2012 and December 31, 2011 for impairment. The evaluations of the ethanol production industry investment for each period's impairment analysis were based on the specific identification of shares held and quoted prices in markets that are not active (level 2 inputs) and no impairments were identified. Since there is not an active market for the brick industry investment, the Company relied on a discounted future net cash flow valuation (level 3 inputs) of the issuer for each period's impairment analysis to determine if the average cost of shares were impaired and no impairment was identified. As a result of those evaluations, the Company does not consider these cost-method investments to be impaired at September 30, 2012 or December 31, 2011.

September 30, 2012 Impairment Analysis - - The Company's investments in available-for-sale equity securities carried at fair value were evaluated for impairment by comparing the specifically identified cost of each investment to market price. As a result of these evaluations, the Company did not identify any other-than-temporary impairments in investments which would have resulted in a recognized loss in earnings of equity investments. The Company did identify some specific investments in available-for-sale equity securities that were not other-than-temporarily impaired resulting in the recognition of unrealized losses (see table above). These unrealized losses relate to investments in the common stock of one company in the cement industry. When the Company evaluated impairment by comparing the specifically identified cost of the investment to market price as of October 22, 2012, the cement industry security had recovered 36% of its temporary impairment. The Company evaluated the near-term prospects in relation to the severity of the impairment and the duration of the impairment. Based on that evaluation, the Company does not consider the investment to be other-than-temporarily impaired at September 30, 2012.

December 31, 2011 Impairment Analysis - - The Company's investments in available-for-sale equity securities carried at fair value were evaluated every quarter for impairment by comparing the specifically identified cost of each investment to market price. As a result of those evaluations, the Company identified a $0.4 million other-than-temporary impairment for the third quarter in its general building materials industry investments resulting in a recognized loss on equity investments. The fair value of those investments then became the new cost basis. No further other-than-temporary impairments were identified in the fourth quarter of 2011.

In its fourth quarter evaluation, the Company identified some specific investments in available-for-sale equity securities it believed were temporarily impaired resulting in unrealized losses (see 2011 information in table above). These unrealized losses relate to investments in the common stock of four companies, one in the residential construction industry and three in the cement industry. When the Company evaluated the impairments by comparing the specifically identified cost of each investment to market price as of January 17, 2012, the residential construction industry securities had recovered approximately 34% of their December 31, 2011 temporary impairment. The investments in one company in the cement industry remained virtually unchanged while the equity securities of the other two cement industry companies recovered approximately 93% and 60% of their December 31, 2011 temporary impairments. Based on those evaluations, the Company did not consider the investments to be other-than-temporarily impaired at December 31, 2011.

Investment Results - - The investment results for September 30, 2012 and December 31, 2011 are as follows:

September 30, 2012	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Available for sale equity securities				
Cement industry	$4,190,000	$5,710,000	$-	$9,900,000
General building materials industry	3,600,000	1,630,000	-	5,230,000
Oil and gas refining and marketing industry	470,000	4,450,000	-	4,920,000
Total available for sale equity securities	$8,260,000	$11,790,000	$-	$20,050,000
Less: Deferred taxes on unrealized holding gains		4,716,000		
Unrealized gains recorded in equity, net of deferred tax		$7,074,000		

December 31, 2011						
Available for sale equity securities						
Cement industry	$	5,985,000	$ 2,765,000	$-	$	8,750,000
General building materials industry		3,819,000	765,000	-		4,584,000
Oil and gas refining and marketing industry		782,000	2,850,000	-		3,632,000
Residential construction industry		302,000	140,000	-		442,000
Total available for sale equity securities	$	10,888,000	$ 6,520,000	$-	$	17,408,000
Less: Deferred taxes on unrealized holding gains			2,608,000			
Unrealized gains recorded in equity, net of deferred tax			$ 3,912,000			

Investment-related cash flow information for September 30, 2012 and December 31, 2011 are as follows:

		September 30, 2012		December 31, 2011	
Proceeds from sale of equity securities	$	6,799,194	$	8,287,182	
Realized gain on equity securities	$	4,173,141	$	5,051,406	
Realized losses due to other-than-temporary impairment of equity securities	$	-	$	(415,287	)

10. 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 nine months ended September 30, 2012 and 2011:

	Pension Benefits	Other Benefits

	2012	2011	2012	2011
Service cost	$ 599,157	$ 563,751	$ 525,497	$ 460,698
Interest cost	1,482,084	1,515,529	1,303,031	1,308,683
Less: Expected return on plan assets	1,560,578	1,452,826	-	-
Amortization of prior service cost	81,557	82,484	(38,444)	(38,064)
Recognized net actuarial loss	925,766	684,742	-	-
Unrecognized net loss	-	-	583,463	510,656
Net periodic expense	$ 1,527,986	$ 1,393,680	$ 2,373,547	$ 2,241,973

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 three months ended September 30, 2012 and 2011:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	$ 199,719	$ 187,917	$ 173,433	$ 153,566
Interest cost	494,028	505,176	430,047	436,228
Less: Expected return on plan assets	520,193	484,275	-	-
Amortization of prior service cost	27,186	27,495	(12,688)	(12,688)
Recognized net actuarial loss	308,589	228,247	-	-
Unrecognized net loss	-	-	192,563	170,218
Net periodic expense	$ 509,329	$ 464,560	$ 783,355	$ 747,324

As previously disclosed in our financial statements for the year ended December 31, 2011, Monarch expects to contribute approximately $3,510,000 to the pension fund in 2012. As of September 30, 2012, we have contributed approximately $1,442,000 to the fund and anticipate contributing approximately an additional $2,068,000 to this plan in 2012 for a total of $3,510,000.

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, 2011, Monarch expects expenditures of approximately $1,600,000 for this plan in 2012. As of September 30, 2012, we have contributed approximately $999,000 and anticipate contributing approximately an additional $601,000 to this plan in 2012 for a total of $1,600,000.

11. Other, net contains miscellaneous nonoperating income (expense) items other than interest income, interest expense, gains on sale of equity investments and dividend income.

12. 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 4,013,634 in the first nine months and third quarter of 2012. The weighted average number of shares outstanding was 4,039,438 and 4,026,393 in the first nine months and third quarter of 2011, respectively. The Company has no capital stock equivalents and therefore, does not report diluted earnings per share.

13. The Company 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 2009. The Company believes it is not subject to any significant tax risk. The Company does not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any significant interest expenses recognized during the nine months ended September 30, 2012 or September 30, 2011.

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 (SEC) 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 or the future activity of federal and state highway programs and other major construction projects; the timing, scope, cost, benefits of, and source of funding for our proposed and recently completed capital improvements; our forecasted cement sales; the timing and source of funds for the repayment of our line of credit; our ability to pay dividends at the current level; the timing and/or collectability of retainage; our anticipated expenditures for benefit plans; our anticipated increase in solid fuels and electricity required to operate our facilities and equipment; and the impact of climate change on our business 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 effect of weather on our business;
- the effect of environmental and other government regulations;
- the availability of credit at reasonable prices; and
- the effect of federal and state funding on demand for our products.

We have described under the caption "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, and in other reports that we file with the SEC from time to time, additional factors that could cause actual results to be materially different from those described in the forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statements, which speak only as of the date they were made.

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, 2011 for accounting policies which are considered by management to be critical to an understanding of the Company's financial statements.

RESULTS OF OPERATIONS - OVERVIEW

Our products are used in residential, commercial and governmental construction. In recent years, the Company has spent substantial sums on major plant modifications designed to increase our cement production capacity to meet our customers' needs and to improve our production processes. We have postponed any further enhancement of our production processes other than those required to meet emission limitations included in the latest regulations issued by the Environmental Protection Agency (EPA).

During the first quarter of 2012, the Company shut down its cement production facility and temporarily laid off the majority of its cement production employees due to the continued weakness anticipated in the construction industry. Mild weather during the layoff allowed some construction projects to continue through the winter, significantly increasing cement sales, reducing inventory at a faster rate than projected and shortening the length of layoff. Following a three week layoff, the employees were recalled to begin approximately three weeks of equipment repairs prior to resuming production.

The Portland Cement Association (PCA) has adjusted its cement consumption forecast upward as a result of stronger than expected job creation and the beginning of a construction industry recovery. Their recently released 2012 state forecasts indicated the Midwest region of the United States will lead cement consumption recovery with an annual growth of 5.6% this year and indicates the region is well positioned to be the forerunner for construction recovery. The PCA expects annual cement consumption growth in 46 of the 50 states in 2012. The mild winter allowed most states to show dramatic improvement over 2011 demand levels. However, as the year progresses, growth rates are expected to level off. The PCA cautions there is a high political risk attached to its baseline forecast since the forecast assumes Congressional actions to avert the "fiscal cliff". Tax increases of $400 billion, coupled with $200 billion in federal spending cuts, are scheduled by law to commence in January 2013, referred to as the fiscal cliff. The PCA is concerned that, given the fragile state of the economy, inaction could prompt a recession and have a negative impact on the construction industry. However, the PCA considers a Congressional impasse the least likely outcome of the "fiscal cliff" issue. No assurances can be given with respect to the PCA's forecasts or the likelihood of the fiscal cliff being averted.

During the remainder of 2012, the Company will evaluate inventory levels and sales forecasts to determine if reductions in cement production are warranted and can be scheduled around maintenance needs. In addition to costs that vary with the volume of production, our cost of sales includes certain fixed costs that do not vary with the volume of production. We have extremely limited ability to reduce these fixed costs in the short term. As a result, lower production levels which result from extended shutdowns generally have a negative impact on our gross profit margins.

RESULTS OF OPERATIONS - THIRD QUARTER OF 2012 COMPARED TO THIRD QUARTER OF 2011

Consolidated net sales, for the three months ended September 30, 2012, increased by $3.7 million when compared to the three months ended September 30, 2011. Sales in our Cement Business increased $0.6 million and sales in our Ready-Mixed Concrete Business increased $3.1 million. Cement Business sales increased $0.5 million due to a 3.3% increase in volume sold and $0.1 million due to price increases. Ready-Mixed Concrete Business sales increased primarily due to a $2.6 million increase in construction contract sales. In addition, ready-mixed concrete sales increased $1.2 million due to a 7.5% increase in cubic yards sold which was slightly offset by $0.1 million due to price decreases. Brick, block, aggregates and other sundry items sales decreased $0.6 million.

Consolidated cost of sales, for the three months ended September 30, 2012, increased by $5.9 million when compared to the three months ended September 30, 2011. Cost of sales in our Cement Business decreased $1.1 million and cost of sales in our Ready-Mixed Concrete Business increased $7.0 million. Cement Business cost of sales increased $0.4 million due to the 3.3% increase in volume sold which was more than offset by a $1.5 million decrease related to lower production costs. Ready-Mixed Concrete Business cost of sales increased primarily due to a $5.7 million increase in construction contract costs. Ready-mixed concrete cost of sales increased $1.1 million due to the 7.5% increase in cubic yards of ready-mixed concrete sold and $1.1 million due to increases in production and delivery costs. These increases were partially offset by a $0.9 million decrease in brick, block, aggregates and other sundry item costs.

As a result of the above sales and cost of sales factors, our overall gross profit rate decreased from 15.2% for the three months ended September 30, 2011 to 8.6% for the three months ended September 30, 2012. This decline was driven by the decline in the gross profit rate for the Ready-Mixed Concrete Business which dropped from 11.5% for the three months ended September 30, 2011 to (5.0)% for the three months ended September 30, 2012 primarily as a result of the losses in the construction contract division in 2012. 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 resulted in cost overruns and a gross loss from operations in our Ready Mixed Concrete Business. The gross profit rate for the Cement Business improved from 20.7% for the three months ended September 30, 2011 to 30.6% for the three months ended September 30, 2012 which reflects the improvement in overall sales volume combined with efficiencies of higher production levels in 2012.

Gain on sale of equity investments was $3.6 million for the three months ended September 30, 2012 while no equity investments were sold in the three months ended September 30, 2011. The Company recorded $0.4 million in impairment loss on equity investments due to impairments that were other-than-temporary for the three months ended September 30, 2011 while none were recorded in 2012. The impairment loss in 2011 was for investments in the general building materials industry.

The effective tax rates for the three months ended September 30, 2012 and 2011 were 27.9% and 28.0%, 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, domestic production activities deduction and valuation allowance. Taxes for the current year are estimated based on prior years' effective tax rates.

RESULTS OF OPERATIONS - FIRST NINE MONTHS OF 2012 COMPARED TO THE FIRST NINE MONTHS OF 2011

Consolidated net sales, for the nine months ended September 30, 2012, increased by $24.1 million when compared to the nine months ended September 30, 2011. Sales in our Cement Business increased $4.6 million and sales in our Ready-Mixed Concrete Business increased $19.5 million. Cement Business sales increased $4.5 million primarily due to a 13.1% increase in volume sold and $0.1 million due to price increases. Ready-Mixed Concrete Business sales increased primarily due to a $6.0 million increase in construction contract sales. In addition, ready-mixed concrete sales increased $12.4 million due to a 35.4% increase in cubic yards sold and $0.7 million due to price increases. An additional increase of $0.4 million was the result of brick, block, aggregates and other sundry items sales improvements.

Consolidated cost of sales, for the nine months ended September 30, 2012, increased by $17.8 million when compared to the nine months ended September 30, 2011. Cost of sales in our Cement Business decreased $2.9 million and cost of sales in our Ready-Mixed Concrete Business increased $20.7 million. Cement Business cost of sales increased $4.1

million due to the 13.1% increase in volume sold which was more than offset by a $7.0 million decrease related to lower production costs for the nine months ended September 30, 2012 when compared to the same period in 2011 primarily resulting from the efficiencies of higher production levels. Ready-Mixed Concrete Business cost of sales increased primarily due to an $8.6 million increase in construction contract costs. Ready-mixed concrete cost of sales increased $12.0 million due to the 35.4% increase in cubic yards of ready-mixed concrete sold. A slight increase in cost of sales was the result of a $0.1 million increase in brick, block, aggregates and other sundry item costs.

Our overall gross profit rate improved from 7.3% for the nine months ended September 30, 2011 to 11.3% for the nine months ended September 30, 2012. The gross profit rate for the Cement Business increased from 9.7% for the nine months ended September 30, 2011 to 27.7% for the nine months ended September 30, 2012 and is reflective of the improvement in overall sales volume combined with efficiencies of higher production levels in 2012. The gross profit rate for the Ready-Mixed Concrete Business declined from 5.7% for the nine months ended September 30, 2011 to 2.4% for the nine months ended September 30, 2012. This decline in the Ready-Mixed Concrete Business was primarily driven by the losses in the construction contract division in 2012. For a discussion of these losses, see the gross profit paragraph above in "Results of Operations - Third Quarter of 2012 compared to Third Quarter of 2011".

Gain on sale of equity investments decreased by $1.0 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 due to the significantly lower volume of shares sold in the first nine months of 2012 as compared to the same period in 2011. The Company recorded $0.4 million in impairment loss on equity investments due to impairments that were other-than-temporary for the first nine months ended September 30, 2011 while none were recorded in 2012. The impairment loss in 2011 was for investments in the general building materials industry.

The effective tax rates for the nine months ended September 30, 2012 and 2011 were 27.9% and 28.0%, 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, domestic production activities deduction and valuation allowance. Taxes for the current year are estimated based on prior years' effective tax rates.

LIQUIDITY

Restricted cash contains $2.6 million of proceeds from the sale of pledged investment account equity securities which much be used to reduce our obligations to BOKF, NA dba Bank of Oklahoma per the covenants in our loan agreement. For a discussion of this agreement and its terms, see the paragraph below under "Liquidity" that discusses the agreement entered into on February 3, 2012.

The Company considers all liquid investments with original maturities of three months or less which we do not intend to roll over beyond three months to be cash equivalents. At September 30, 2012 and December 31, 2011, cash equivalents consisted primarily of money market investments and repurchase agreements with various banks. The FDIC, through the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), has permanently raised the standard maximum deposit insurance amount (SMDIA) to fully guarantee all deposit accounts up to $250,000. In addition, the FDIC has adopted section 343 of the Dodd-Frank Act, effective December 31, 2010, which provides for unlimited deposit insurance for noninterest-bearing transaction accounts for two years starting December 31, 2010. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to depositors under the FDIC's general deposit insurance rules.

We are able to meet our cash needs primarily from a combination of operations, the sale of equity investments and bank loans.

Operating activities provided $5.3 million and $1.2 million during the nine months ended September 30, 2012 and September 30, 2011, respectively. The $4.0 million increase in cash provided during 2012 over the corresponding period of 2011 is reflective of the improvement in overall sales volume combined with improvements in gross profit margins in 2012. The positive cash flow from operating activities generated during 2012 was also driven by the favorable changes in refundable income taxes, accounts payable and accrued liabilities partially offset by unfavorable changes in receivables and inventories. Net income included realized gains of $4.2 million and $4.8 million for 2012 and 2011, respectively, from the disposal of available-for-sale equity securities net of any realized losses on impairment of equity securities. These equity securities gains are not indicative of the operating margins for the periods. The cash provided by operating activities during 2011 was driven by favorable changes in inventories, accounts payable and accrued liabilities and unfavorable changes in refundable income taxes, receivables, and prepaid expenses.

Investing activities provided $2.3 million and used $0.4 million during the first nine months of 2012 and 2011, respectively. The difference between the two periods is primarily related to the $1.3 million increase in proceeds, net of purchases, from the sale of available-for-sale equity investments and the $1.5 million decline in cash used for the acquisition of business and property, plant and equipment during the nine months ended September 30, 2012 from the same period in 2011.

Financing activities used $7.7 million and $2.6 million during the first nine months of 2012 and 2011, respectively. The difference between the two periods is primarily due to the changes in the line of credit balance, restricted cash, and capital stock purchases. The line of credit was used to cover operating expenses and for capital expenditures. Restricted cash for the nine months ended September 30, 2012 consists of proceeds from the sale of equity securities in our pledged investment account still in the settlement process. These proceeds must be used to reduce the obligations of the Company to BOKF, NA dba Bank of Oklahoma per the covenants in our loan agreement. For a discussion of this agreement and its terms, see the paragraph below under "Liquidity" that discusses the agreement entered into on February 3, 2012. During 2011 $2.5 million of capital stock was purchased while none was purchased in 2012.

During 2011, Monarch's secured credit commitment with its lender, Bank of Oklahoma, N.A., consisted of a $17.8 million term loan maturing December 31, 2014 and a $15.0 million line of credit which matured December 31, 2011. The interest rates on the line of credit were variable and based on the lender's national prime rate less 0.50% with a 3.50% interest rate minimum or floor. Interest rates on the term loan were variable and based on the lender's national prime rate less 0.75% with a 3.00% interest rate minimum or floor. The agreement required Monarch to pledge its investment account to the lender as collateral for the term loan and revolving line of credit. The loan agreement also contained a financial covenant requiring the Company, as of the end of any fiscal quarter, to maintain a minimum tangible net worth before accumulated other comprehensive income of $95.0 million and a minimum tangible net worth after accumulated other comprehensive income of $90.0 million. The Company was in compliance with these requirements throughout 2011.

On December 31, 2011, Monarch entered into an amendment to the loan agreement with its current lender, BOKF, NA dba Bank of Oklahoma, to renew and modify the terms of Monarch's term loan and revolving line of credit. Interest rates on the line of credit and term loan remained unchanged from the prior agreement with the lender. The credit commitment consisted of a $17.8 million term loan maturing December 31, 2014 and a $15.0 million line of credit maturing February 3, 2012. In February 2012, the Company entered into a new credit agreement with its current lender, BOKF, NA dba Bank of Oklahoma, which amended and restated its existing credit agreement. The new agreement provides for a secured credit commitment consisting of an approximately $9.0 million term loan maturing December 31, 2014 and a line of credit which permits revolving borrowings and letters of credit up to an aggregate of $15.0 million maturing December 31, 2012. Interest rates on the Company's line of credit are variable and are based on the lender's prime rate less 0.50% with a 3.50% interest rate minimum or floor. Interest rates on the Company's term loan are variable and based on the lender's prime rate less 0.75% with a 3.00% interest rate minimum or floor. The new agreement requires the Company to pledge the investment account held at BOKF, NA, receivable accounts and inventory to BOKF, NA dba Bank of Oklahoma as collateral for the term loan and revolving line of credit. The carrying value of receivables, inventory, and the investment account pledged as collateral was $21.4 million, $29.8

million, and $20.0 million, respectively as of September 30, 2012. Withdrawal of the proceeds of the sale of any equity securities from the pledged investment account must be used to reduce the obligations of the Company to the lender. The agreement contains a financial covenant requiring the Company, as of the end of each fiscal quarter, to maintain a minimum tangible net worth before accumulated other comprehensive income of $95.0 million and a minimum tangible net worth after accumulated other comprehensive income of $85.0 million. In addition, the agreement prohibits cash outlays for business acquisitions and the purchase of the Company's capital stock and restricts cash dividends and capital expenditures in any fiscal year to a maximum of $3.8 million and $11.5 million, respectively. The Company was in compliance with these requirements at the end of the third quarter of 2012.

As of September 30, 2012, we had $6.9 million outstanding on the term loan and $5.7 million outstanding on the line of credit leaving a balance available on the line of credit of $9.3 million. The annual weighted average interest rate we paid on the term loan during the third quarter and first nine months of 2012 and 2011 was 3.25%. The annual weighted average interest rate we paid on the line of credit during the third quarter and first nine months of 2012 and 2011 was 3.50%. As of September 30, 2012, the applicable interest rate was 3.25% on the term loan and 3.50% on the line of credit. The term loan, which originated in 2000, was used to help finance the expansion project at our cement manufacturing facility. The line of credit is used to cover operating expenses primarily during the first half of the year when we build inventory due to the seasonality of our business and for capital expenditures. Our Board of Directors has given management the authority to borrow a maximum of $50 million. We are currently in discussions with several banking institutions to provide financing for our National Emission Standard for Hazardous Air Pollutants (NESHAP) capital expenditures and replacement of our line of credit. No assurances can be given that we will be able to obtain this financing on favorable terms, if at all.

The Company has capital improvement projects in the planning and design phases in addition to projects already in progress. For discussion of these projects, see "Capital Resources" below. We anticipate 2012 capital expenditures will approximate 2011 levels and we do not anticipate the need for bank financing in addition to that available under the existing line of credit.

For several years the Company has paid a dividend in January, March, June and September. At the August 2012 Board of Directors' meeting, the Board declared a dividend of $0.23 per share, payable in September. Under the terms and conditions of our new credit agreement, the Company's ability to pay dividends is subject to its satisfaction of the requirements to maintain a minimum tangible net worth after accumulated other comprehensive income of $85.0 million, maintain a minimum tangible net worth before accumulated other comprehensive income of $95.0 million, and restrict cash dividends in any fiscal year to a maximum of $3.8 million. The requirements could impact the Company's ability to pay and the size of dividends in the future. Although dividends are declared at the Board's discretion and could be impacted by the requirements of the Company's loan agreement, we project future earnings will support the continued payment of dividends at the current level.

The Company was required to make a pension contribution for 2011. The Company's contribution was approximately $3.2 million. No estimates of required pension payments have been scheduled beyond 2012. Based on the pension laws currently in effect, any resulting increases in minimum funding requirements could cause a negative impact to our liquidity. See Note 10 of Notes to the Condensed Consolidated Financial Statements for disclosures about 2012 pension contributions.

FINANCIAL CONDITION

Total assets as of September 30, 2012 were $178.8 million, an increase of $5.1 million since December 31, 2011. The $5.5 million increase in receivables was primarily due to a $1.8 million increase in unbilled revenue in accounts receivable and increases resulting from $2.8 million higher sales in the month of September 2012 compared to the month of December 2011. From year-to-year the weather conditions in these two months can vary significantly which impacts sales and resulting receivables at month-end. Increases in receivables and inventory are common during the first nine months of the year due to the seasonality of our business (see"Seasonality" below). Total inventories increased $2.0 million primarily due to increases in work-in-process and building products of $1.0 million and $0.4 million, respectively. Investments increased $2.6 million despite the sale of available-for-sale equity securities primarily due to the increase in the fair value of remaining equities held. Deferred Income Taxes asset declined $2.7 million primarily as a result of the increase in investments.

Higher production levels in the Cement Business and increased contract sales activity in the Ready-Mixed Concrete Business equally contributed to a $2.8 million increase in accounts payable from December 31, 2011 to September 20, 2012. Accrued liabilities decreased from December 31, 2011 to September 30, 2012 by $1.8 million primarily due to a decrease in cash dividends liability due to the timing of when dividends are declared and paid.

Indebtedness decreased $1.5 million during the first nine months of 2012 primarily due to payments on the Company's term loan.

Unrealized holding gain, net of deferred tax, which is included in accumulated other comprehensive loss, increased by $3.2 million during the first nine months of 2012 primarily due to higher market prices of available-for-sale equity securities.

CAPITAL RESOURCES

The Company regularly invests in miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business. Capital expenditures during the first nine months of 2012 included $2.7 million related to the Cement Business and $1.9 million related to the Ready-Mixed Concrete Business and included primarily routine equipment purchases. During the first nine months of 2012, cash expenditures for property, plant and equipment totaled approximately $4.6 million, excluding the amounts that are included in accounts payable.

The Company does not currently meet certain emission limitations included in the latest regulations issued by the EPA. For discussion on the regulations, see NESHAP discussed below under "Environmental Regulations". To comply with these new regulations, the Company will need to install additional pollution control equipment in its Cement Business. There is no proven technology that enables us to give 100% assurance that we can reach the limits required by the new regulations; however, we feel compliance is possible at our modern facility through the installation of additional pollution control equipment. We plan to use a step approach, beginning with the installation of additional dust collectors on one of our two kilns. Once they are installed, we will test for compliance to determine if other pollution control equipment is needed. If we are not in compliance, we will continue to install pollution control equipment, testing for compliance after each installation, until our emissions are within limits. Once we have successfully modified one kiln to meet the new emission standards, we will proceed with our second kiln. We have also initiated plans to modify our roller mill and related equipment at an estimated cost of $7.0 million dollars. Supplemental equipment (and estimated cost) which may be required includes additional dust collectors on both kilns ($3.7 million), upgraded dust collectors on both clinker coolers ($4.0 million), hydrated lime injection system ($0.4 million), and a chloride by-pass system ($7.0 million). To date, we have expended $5.4 million towards these projects related to NESHAP compliance. Cost estimates will be updated as the modifications are engineered and priced for our facility. We are hopeful that we can comply with the new regulations without having to install a chloride by-pass system. Under proposed amendments to two 2010 air rules for portland cement manufacturing, we have until September 2015 to comply and may be able to get a one year extension if we have shown continuous progress toward becoming compliant.

NESHAP regulations also require us to install analyzers capable of continuously monitoring certain pollutants. We are partnering with an analyzer manufacturer to assist in the development of the required technology and estimate we will spend approximately $1.0 million for these analyzers.

The Company plans to invest in other miscellaneous equipment and facility improvements in both the Cement Business and Ready-Mixed Concrete Business in 2012. These expenditures, plus the ones discussed in the above paragraphs related to NESHAP compliance, are expected to reach approximately $8.0 million during 2012 and will be funded with a mixture of cash from operations and temporary bank loans. We do not anticipate the need for additional bank financing beyond the amount available through our existing revolving line of credit.

MARKET RISK

Market risks relating to the Company's operations result primarily from changes in demand for our products. Construction activity has been adversely impacted by the global financial crisis even though interest rates are at historically low levels. A continuation of the financial crisis, including a scarcity of credit, or a significant increase in interest rates could lead to a further reduction in construction activities in both the residential and commercial market. 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, concrete products 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.

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, and to a lesser extent natural gas, in its kilns. Increases above the rate of inflation in the cost of these solid fuels, natural gas, or in the electricity required to operate our cement manufacturing equipment could adversely affect our operating profits. Prices of the specialized replacement parts and equipment the Company must continually purchase tend to increase directly with the rate of inflation with the exception of equipment and replacement parts containing large amounts of steel. In recent years, steel prices have tended not to follow inflationary trends, but rather have been influenced by worldwide demand. Prices for diesel fuel used in the transportation of our raw materials and finished products also vary based on supply and demand and in some years exceed the rate of inflation adversely affecting our operating profits.

ENVIRONMENTAL REGULATIONS

The Company's cement plant emissions are regulated by the Kansas Department of Health and Environment (KDHE) and the EPA. KDHE is responsible for the administration and enforcement of Kansas environmental regulations, which typically mirror national regulations.

A ruling promulgated by the EPA in 2009 required us to install carbon dioxide (CO2) Continuous Emission Monitors (CEMs) to track various aspects of the production process to effectively establish a Greenhouse Gas (GHG) inventory for our cement manufacturing facility.

The EPA Administrator has made two important findings clearing the way for EPA to regulate greenhouse gases under the Clean Air Act. The "Endangerment Finding" clarifies EPA's belief that current and projected concentrations of six key greenhouse gases in the atmosphere pose a threat to human health and welfare. Further, the "Cause or Contribute Finding," associates the emissions of the six named GHGs with the threat to public health and welfare. In

July 2012 the Court of Appeals for the D.C. Circuit affirmed EPA's findings on these two rules. At this time it is difficult to determine if the EPA will act on the "Endangerment Finding", what that action may involve and when it might be put into place.

We are currently not aware of any other final GHG or climate change regulations or legislation. There are many variables making it difficult to predict the overall cost of GHG controls. It is equally difficult to determine when those costs will be realized, or even the feasibility of any additional regulations or legislation being enacted or finalized. We believe there is consensus in the industry that the costs of CO2 limits required through regulation or legislation could be substantial enough to fundamentally adversely change the cement manufacturing business.

On June 18, 2012, the EPA published amendments to two air rules for portland cement manufacturing that were initially published on September 9, 2010. Under the proposed amendments, the compliance date was extended by two years to September 9, 2015. Both the initial rule and the amended rule may require more stringent emission limitations on mercury (Hg), total hydrocarbons (THC), hydrochloric acid (HCL), and particulate matter less than 10 microns in diameter (PM 10). The June 18, 2012 EPA proposal relaxed standards for particulate matter from 0.04 pounds of PM per ton of clinker to 0.07 pounds per ton. Our current emission levels are below the proposed limitations for mercury and THC so additional control equipment would not be required for these pollutants; however, we expect to incur increased costs for control equipment for PM 10 and HCL. There will also be additional costs if the proposal is made final for monitoring, testing, and increased maintenance labor. Initial estimated costs to comply are discussed above under "Capital Resources".

On October 6, 2011, The Cement Sector Regulatory Relief Act of 2011 was passed by the House of Representatives. In summary, the bill would force a review of the current NESHAP rule to be completed within 15 months, and it would extend the compliance date two years making the new date September 9, 2015. A companion bill, S 1610, has been introduced in the Senate, but PCA staff based in Washington indicate that there are not enough votes for passage.

On December 9, 2011 the D. C. District Circuit Court of Appeals issued its ruling on the PCA's legal challenge to the NESHAP ruling. Although the court, in its decision, expressed strong dissatisfaction with how EPA drafted the rule, it did not stay the rule. The court required the EPA to review and repropose the NESHAP rule. On June 22, 2012, the EPA proposed amendments to the rule, which among other things extended the compliance deadline to September 9, 2015 and relaxed standards for particulate matter. EPA officials anticipate that their proposal will be challenged by environmental groups, which could delay publication of the final rule which under the settlement with the PCA must be finalized by the end of December 2012.

On September 9, 2010 the EPA published New Source Performance Standards (NSPS) for nitrous oxide (NOx), sulphur dioxide (SO2), and particulate matter (PM 10). The rule applies to new or modified sources. At this time, management does not anticipate that modifications necessitated to comply with NESHAP will trigger application of NSPS.

Although we are not aware of any proposed or pending climate change regulations apart from the GHG controls noted above, climate change regulation could result in (1) increased energy costs, (2) a shift toward carbon neutral fuels or carbon neutral offset strategies, and (3) increased labor costs to acquire the specialized technical expertise needed to comply with the environmental regulations. Demand for our products could decrease due to increased pollution control costs reflected in the price of our products. Conversely, demand could increase as others try to meet their government environmental mandates by using concrete products known for their sustainability benefits and energy efficiency.

In management's opinion, the physical impact of a warmer climate in our market area would increase the number of days with weather conducive for work to proceed on construction projects which in turn would create the potential for greater profitability. Conversely, legislation and regulatory attempts to interfere with a natural warming cycle could, if successful, have an adverse effect on profitability. In addition, differences in environmental regulations in the United States from those of other cement producing countries could affect our ability to continue to compete with the cost of cement imported from other countries.

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 typically 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company invests in equity investments which are subject to market fluctuations. The Company held $22.7 million of equity securities, primarily of publicly traded entities, as of September 30, 2012. The aggregate amount of securities carried at cost, for which the Company has not elected the fair value option, was $2.6 million as of September 30, 2012. The remaining $20.1 million in equity investments, which are stated at fair value, are not hedged and are exposed to the risk of changing market prices. The Company classifies all securities as "available-for-sale" for accounting purposes and marks them to market on the balance sheet at the end of each period unless they are securities for which the Company has not elected the fair value option. Securities carried at cost are adjusted for impairment, if conditions warrant. Management estimates that its publicly traded 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 $1.2 million effect, net of deferred tax, on comprehensive income. At September 30, 2012, the Company evaluated all of its equity investments for impairment. The results of those evaluations are discussed in Note 9 of Notes to the Condensed Consolidated Financial Statements.

The Company also has $12.6 million of bank loans as of September 30, 2012. Interest rates on the Company's term loan and line of credit are variable, subject to interest rate minimums or floors, and are based on the lender's National Prime rate less 0.75% and lender's National Prime rate less 0.50%, respectively.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-5(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, including its President and Chairman of the Board of Directors and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-5(e) or 15d-15(e) under the Exchange Act). Based upon that evaluation, the Company's President and Chairman of the Board of Directors and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 4. Mine Safety Disclosures

Under Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and under the SEC's Item 104 of Regulation S-K, each operator of a coal or other mine is required to include disclosures regarding certain mine safety results in its periodic reports filed with the SEC. The operation of the Company's quarries is subject to regulation by the federal Mine Safety and Health Administration (MSHA) under the Federal Mine Safety and Health Act of 1977. The information required under Section 1503(a) and Item 104 of Regulation S-K regarding certain mining safety and health matters is presented in Exhibit 95 to this report.

Item 6. 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	18 U.S.C. Section 1350 Certificate of the President and Chairman of the Board dated November 9, 2012.
32.2	18 U.S.C. Section 1350 Certificate of the Chief Financial Officer dated November 9, 2012.
95	Mine Safety Disclosures
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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 9, 2012	/s/ Walter H. Wulf, Jr. Walter H. Wulf, Jr. President and Chairman of the Board (principal executive officer)
Date	November 9, 2012	/s/ Debra P. Roe Debra P. Roe, CPA Chief Financial Officer and Assistant Secretary-Treasurer (principal financial officer and principal accounting officer)

EXHIBIT INDEX

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