

The Monarch Cement Company
Quarterly Report
June 30, 2017

1) **Name of the issuer and its predecessors.**

The Monarch Cement Company

2) **Address of the issuer's principal executive offices**

449 1200 Street
P.O. Box 1000
Humboldt, KS 66748
Phone: (620) 473-2222
Email: shareholder.relations@monarchcement.com
Website: <http://www.monarchcement.com>

3) **Security Information**

Trading Symbol: MCEM
Exact title and class of securities outstanding: Capital Stock
CUSIP: 609031307
Par or Stated Value: \$2.50
Total shares authorized: 10,000,000 as of: June 30, 2017
Total shares outstanding: 2,616,480 as of: June 30, 2017

Trading Symbol: MCEM
Exact title and class of securities outstanding: Class B Capital Stock
CUSIP: 609031406
Par or Stated Value: \$2.50
Total shares authorized: 10,000,000 as of: June 30, 2017
Total shares outstanding: 1,244,309 as of: June 30, 2017

Transfer Agent

The Monarch Cement Company
P.O. Box 1000
Humboldt, KS 66748-0900
Phone: (620) 473-2222

Is the Transfer Agent registered under the Exchange Act? Yes: No:

List any restrictions on the transfer of security:

Class B Capital Stock can only be transferred to family members, otherwise shares will be converted into Capital Stock on a share-for-share basis.

Describe any trading suspension orders issued by the SEC in the past 12 months:

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

4) Issuance History

Pursuant to the provisions of Monarch's Articles of Incorporation governing the conversion of its Class B Capital Stock into Capital Stock, no shares of Monarch's Capital Stock were issued in the second quarter of 2017 upon conversion of an equal number of shares of Monarch's Class B Capital Stock. Monarch did not issue or sell any shares of its Capital Stock or Class B Capital Stock during the quarter ending June 30, 2017.

5) Financial Statements

The Company's interim financial statements are attached at the end of this quarterly filing.

6) Describe the Issuer's Business, Products and Services.

A. Description of issuer's business operations:

The Monarch Cement Company (Monarch) manufactures and sells portland cement. The manufacture of portland cement by Monarch involves the quarrying of clay and limestone and the crushing, drying and blending of these raw materials into the proper chemical ratio. The raw materials are then heated in kilns to 2800° Fahrenheit at which time chemical reactions occur forming a new compound called clinker. After the addition of a small amount of gypsum, the clinker is ground into a very fine powder that is known as portland cement. The term "portland cement" is not a brand name but is a term that distinguishes cement manufactured by this chemical process from natural cement, which is no longer widely used. Portland cement is the basic material used in the production of ready-mixed concrete that is used in highway, bridge and building construction where strength and durability are primary requirements.

Subsidiaries of Monarch (which together with Monarch are referred to herein as the "Company") are engaged in the ready-mixed concrete, concrete products and sundry building materials business. Ready-mixed concrete is manufactured by combining aggregates with portland cement, water and chemical admixtures in batch plants. It is then loaded into mixer trucks and mixed in transit to the construction site where it is delivered to the contractor. Concrete products primarily include pre-formed components produced by the Company that are ready for use in the construction of commercial buildings, institutional facilities and parking garages.

B. Date and State of Incorporation:

Monarch was organized as a corporation under the laws of the State of Kansas on July 24, 1913.

C. Issuer's primary and secondary SIC Codes:

3241 – Cement, Hydraulic

D. Issuer's fiscal year end date:

December 31

E. Principal products or services, and their markets:

The marketing area for Monarch's products, which is limited by the relatively high cost of transporting cement, consists primarily of the State of Kansas, the State of Iowa, southeast Nebraska, western Missouri, northwest Arkansas and northern Oklahoma. Included within this area are the metropolitan markets of Des Moines, Iowa; Kansas City, Missouri; Springfield, Missouri; Wichita, Kansas; Omaha, Nebraska; Lincoln, Nebraska; Fayetteville, Arkansas and Tulsa, Oklahoma. Sales of cement are made primarily to contractors, ready-mixed concrete plants, concrete products plants, building materials dealers and governmental agencies. Monarch cement is delivered either in bulk or in paper bags and is sold under the "MONARCH" brand name. The cement is distributed both by truck and rail, either common or private carrier.

Subsidiaries of Monarch sell ready-mixed concrete, concrete products and sundry building materials in Monarch's primary market.

7) Describe the Issuer's Facilities

The Company's corporate office and cement plant, including equipment and raw materials, are located at Humboldt, Kansas, approximately 110 miles southwest of Kansas City, Missouri. The Company owns approximately 5,000 acres of land on which the Humboldt plant, offices and all essential raw materials for the cement operations are located. Construction completed in 2006 increased our cement plant's capacity allowing us to produce in excess of one million tons of cement per year. Producing at that level, raw material reserves are estimated to be sufficient to maintain operations at this plant for more than 50 years, although not all reserves are currently accessible under existing governmental permits and approvals. The Company believes that this plant and equipment are suitable and adequate for its current level of operations and provides for increases in market demand.

The Company also owns approximately 250 acres of land in Des Moines, Iowa on which it operates a cement terminal. The Company transfers cement produced in Humboldt, Kansas to this terminal for distribution to Iowa customers. The Company also owns a rock quarry located near Earlham, Iowa, approximately 30 miles west of Des Moines, Iowa. Approximately 353 acres of this 400 acre tract have been quarried and the Company has contracted with a third party to quarry and sell the remaining rock. This quarry operation does not have a material effect on the Company's overall operations.

The Company owns various companies which sell ready-mixed concrete, concrete products and sundry building materials within the Humboldt cement plant's primary market. Various equipment and facility improvements in this line of business ensure these plants are suitable and adequate for their current level of operations and provide for increases in market demand. No single subsidiary's physical property is materially significant to the Company.

There are no material encumbrances on our properties.

8) **Officers, Directors, and Control Persons**

F. Names of Officers, Directors, and Control Persons.

Officers	Directors	Control Persons
Walter H. Wulf, Jr. <i>President and Chairman of the Board</i>	Jack R. Callahan	Byron K. Radcliff Trust
*Robert M. Kissick <i>Vice Chairman of the Board and Vice President</i>	Ronald E. Callaway	Walter H. Wulf, Jr.
Kent A. Webber <i>Executive Vice President</i>	David L. Deffner	
Debra P. Roe <i>Chief Financial Officer and Secretary-Treasurer</i>	Robert M. Kissick	
Lisa J. Fontaine <i>Assistant Secretary</i>	Gayle C. McMillen	
Kenneth G. Miller <i>Vice President - Cement Manufacturing</i>	Byron J. Radcliff	
N. Joan Perez <i>Vice President - Sales</i>	Robert K. Radcliff	
	Steve W. Sloan	
	Michael R. Wachter	
	Walter H. Wulf, Jr.	
	Walter H. Wulf, III	

*Not actively involved in the daily affairs of the Company

G. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

Even though considered a minor offense, our Executive Vice President, Kent Webber, through a plea agreement, pled guilty to taking an excess of the limit on doves in November 2014.

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

H. Beneficial Shareholders.

Byron K. Radcliff Trust – 10.66%
P.O. Box 100
Dexter, Kansas 67038

9) **Third Party Providers**

Legal Counsel

Stinson Leonard Street LLP
1201 Walnut Street, Suite 2900
Kansas City, MO 64106-2150

Accountant or Auditor

BKD, LLP
1201 Walnut Street, Suite 1700
Kansas City, MO 64106-2246
Phone: (816) 221-6300
<http://www.bkd.com/contact-us/>

Investor Relations Consultant

Stinson Leonard Street LLP
1201 Walnut Street, Suite 2900
Kansas City, MO 64106-2150

10) Issuer Certification

I, Walter H. Wulf, Jr., President and Chairman of the Board (Chief Executive Officer), certify that:

I have reviewed this Quarterly Report for the quarter ended June 30, 2017 of The Monarch Cement Company.

Based on my knowledge, this disclosure statement 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 disclosure statement; and

Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 9, 2017

/s/ Walter H. Wulf, Jr.
President and Chairman of the Board
(Chief Executive Officer)

I, Debra P. Roe, Chief Financial Officer and Secretary-Treasurer, certify that:

I have reviewed this Quarterly Report for the quarter ended June 30, 2017 of The Monarch Cement Company.

Based on my knowledge, this disclosure statement 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 disclosure statement; and

Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 9, 2017

/s/ Debra P. Roe
Chief Financial Officer and
Secretary-Treasurer

The Monarch Cement Company and Subsidiaries
Condensed Consolidated Balance Sheets
June 30, 2017 (Unaudited) and December 31, 2016

ASSETS	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 6,320,547	\$ 12,117,812
Receivables, less allowances of \$525,186 in 2017 and \$468,000 in 2016 for doubtful accounts	22,386,703	15,662,897
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 7,300,424	\$ 4,715,192
Work in process	4,215,141	3,338,303
Building products	4,238,693	3,663,506
Fuel, gypsum, paper sacks and other	6,444,197	6,898,116
Operating and maintenance supplies	14,235,642	14,726,352
Total inventories	\$ 36,434,097	\$ 33,341,469
Prepaid expenses	1,104,817	971,306
Total current assets	\$ 66,246,164	\$ 63,240,465
Property, Plant and Equipment, at cost, less accumulated depreciation and depletion of \$229,933,541 in 2017 and \$226,962,699 in 2016	85,964,452	81,351,103
Deferred Income Taxes	4,013,813	3,651,813
Investments	34,212,231	33,105,362
Investments in Affiliates	7,097,877	6,787,591
Other Assets	2,708,488	2,727,793
	\$ 200,243,025	\$ 190,864,127
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 6,655,118	\$ 5,655,288
Current portion of bank loans	-	4,285,714
Accrued liabilities	10,927,662	7,186,948
Total current liabilities	\$ 17,582,780	\$ 17,127,950
Long-Term Debt	2,745,783	34,614
Accrued Postretirement Benefits	21,015,564	20,714,778
Accrued Pension Expense	1,581,646	2,099,271
Stockholders' Equity:		
Capital Stock, par value \$2.50 per share, one vote per share - Authorized 10,000,000 shares, Issued and Outstanding 2,616,480 shares at 06/30/2017 and 2,611,430 shares at 12/31/2016	\$ 6,541,200	\$ 6,528,575
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 1,244,309 shares at 06/30/2017 and 1,249,359 shares at 12/31/2016	3,110,773	3,123,398
Additional paid-in-capital	2,485,125	2,485,125
Retained earnings	141,089,454	134,210,386
Accumulated other comprehensive income	4,090,700	4,540,030
Total stockholders' equity	\$ 157,317,252	\$ 150,887,514
	\$ 200,243,025	\$ 190,864,127

See accompanying Notes to the Condensed Consolidated Financial Statements

The Monarch Cement Company and Subsidiaries

Condensed Consolidated Statements of Income and Retained Earnings
For the Three Months and the Six Months Ended June 30, 2017 and 2016 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
NET SALES	\$ 45,593,593	\$ 45,105,834	\$ 76,835,151	\$ 74,673,597
COST OF SALES	29,422,869	33,170,796	53,705,490	56,691,180
Gross profit from operations	\$ 16,170,724	\$ 11,935,038	\$ 23,129,661	\$ 17,982,417
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8,385,296	3,871,784	12,604,876	7,914,725
Income from operations	\$ 7,785,428	\$ 8,063,254	\$ 10,524,785	\$ 10,067,692
OTHER INCOME (EXPENSE):				
Interest income	\$ 27,236	\$ 12,077	\$ 50,801	\$ 48,938
Interest expense	(7,828)	(51,402)	(26,954)	(80,197)
Gain on sale of equity investments	-	2,091	31,200	2,091
Dividend income	145,850	60,653	275,704	239,377
Other, net	370,139	163,093	452,444	150,690
	<u>\$ 535,397</u>	<u>\$ 186,512</u>	<u>\$ 783,195</u>	<u>\$ 360,899</u>
Income before income taxes	\$ 8,320,825	\$ 8,249,766	\$ 11,307,980	\$ 10,428,591
PROVISION FOR INCOME TAXES	2,500,000	2,710,000	3,400,000	3,440,000
Equity in affiliate earnings, net of tax	206,056	95,373	322,364	195,358
NET INCOME	\$ 6,026,881	\$ 5,635,139	\$ 8,230,344	\$ 7,183,949
RETAINED EARNINGS, beg. of period	\$ 136,413,849	\$ 119,232,456	\$ 134,210,386	\$ 117,683,646
Less cash dividends	1,351,276	1,158,237	1,351,276	1,158,237
RETAINED EARNINGS, end of period	\$ 141,089,454	\$ 123,709,358	\$ 141,089,454	\$ 123,709,358
Basic earnings per share	\$ 1.56	\$ 1.46	\$ 2.13	\$ 1.86
Cash dividends per share	\$ 0.35	\$ 0.30	\$ 0.35	\$ 0.30

Condensed Consolidated Statements of Comprehensive Income
For the Three Months and the Six Months Ended June 30, 2017 and 2016 (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
NET INCOME	\$ 6,026,881	\$ 5,635,139	\$ 8,230,344	\$ 7,183,949
OTHER COMPREHENSIVE INCOME (LOSS), net of deferred tax				
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE- FOR-SALE SECURITIES (Net of deferred tax expense (benefit) of \$496,000, \$388,000, \$36,000 and \$680,000, respectively)	\$ 744,000	\$ 584,091	\$ 55,200	\$ 1,022,091
RECLASSIFICATION ADJUSTMENT FOR SALE OF SECURITIES INCLUDED IN NET INCOME (LOSS) (Net of deferred tax expense (benefit) of \$0, \$0, \$12,000 and \$0, respectively)	-	(2,091)	(19,200)	(2,091)
AMORTIZATION OF PENSION AND POSTRETIREMENT, PRIOR SERVICE COST (Net of deferred tax expense of \$312,500, \$311,000, \$625,000 and \$623,000, respectively)	(468,593)	(467,808)	(937,186)	(934,616)
AMORTIZATION OF PENSION AND POSTRETIREMENT LOSS (Net of deferred tax benefit of \$(151,500), \$(242,000), \$(302,000) and \$(485,000), respectively)	225,428	365,246	451,856	729,492
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), net of deferred tax	\$ 500,835	\$ 479,438	\$ (449,330)	\$ 814,876
COMPREHENSIVE INCOME	\$ 6,527,716	\$ 6,114,577	\$ 7,781,014	\$ 7,998,825

See accompanying Notes to the Condensed Consolidated Financial Statements

The Monarch Cement Company And Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2017 and 2016 (Unaudited)

	2017	2016
OPERATING ACTIVITIES:		
Net income	\$ 8,230,344	\$ 7,183,949
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation, depletion and amortization	6,490,701	7,206,560
Income from equity method investments, net of dividends received	(310,286)	(183,280)
Deferred income taxes	(63,000)	(70,000)
Gain on disposal of assets	(329,917)	(89,827)
Gain on disposal of other assets	(31,200)	(2,091)
Postretirement benefits and pension expense	(1,025,169)	(571,114)
Change in assets and liabilities:		
Receivables, net	(6,723,806)	(8,374,203)
Inventories	(3,092,628)	(1,212,963)
Refundable income taxes	1,146,981	-
Prepaid expenses	(133,511)	(665,074)
Other assets	8,601	(9,152)
Accounts payable and accrued liabilities	7,915,380	4,784,267
Net cash provided by operating activities	<u>\$ 12,082,490</u>	<u>\$ 7,997,072</u>
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	\$ (10,398,498)	\$ (9,118,801)
Proceeds from disposals of property, plant and equipment	351,211	90,261
Payment for purchases of equity investments	(1,251,416)	(2,576,234)
Proceeds from disposals of equity investments	235,747	255,737
Net cash used for investing activities	<u>\$ (11,062,956)</u>	<u>\$ (11,349,037)</u>
FINANCING ACTIVITIES:		
Increase in revolving loan, net	\$ -	\$ 2,588,278
Payments on bank loans	(4,285,714)	(714,285)
Payments on other long-term debt	(11,252)	(10,704)
Cash dividends paid	(2,509,513)	(2,123,434)
Purchases of capital stock	(10,320)	(42,030)
Net cash used for financing activities	<u>\$ (6,816,799)</u>	<u>\$ (302,175)</u>
Net decrease in cash and cash equivalents	\$ (5,797,265)	\$ (3,654,140)
CASH AND CASH EQUIVALENTS, beginning of year	<u>12,117,812</u>	<u>6,612,180</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 6,320,547</u>	<u>\$ 2,958,040</u>
Supplemental disclosures:		
Interest paid, net of amount capitalized	26,954	80,197
Income taxes paid	1,400,000	-
Capital equipment additions included in accounts payable and accrued liabilities	881,459	437,892
Capital stock repurchases included in accrued liabilities	347,340	447,810

See accompanying Notes to the Condensed Consolidated Financial Statements

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

(2) PROPERTY, PLANT AND EQUIPMENT

As of June 30, 2017, the amount of accounts payable related to property, plant and equipment was approximately \$882,000 compared to December 31, 2016 which was approximately \$165,000.

(3) INVENTORIES

We did not incur a temporary last-in, first-out (LIFO) liquidation gain during the three months and six months ended June 30, 2017 or June 30, 2016.

(4) LINES OF BUSINESS

Corporate assets for 2017 and 2016 include cash and cash equivalents, deferred income taxes, investments and other assets. Following is a summary of the Company's business segment results for the periods indicated:

	Cement Business	Ready-Mix Concrete Business	Adjustments and Eliminations	Consolidated
For the Three Months Ended 06/30/17				
Sales to unaffiliated customers	\$ 23,733,562	\$ 21,860,031	\$ -	\$ 45,593,593
Intersegment sales	4,458,457	11,080	(4,469,537)	-
Total net sales	<u>\$ 28,192,019</u>	<u>\$ 21,871,111</u>	<u>\$ (4,469,537)</u>	<u>\$ 45,593,593</u>
Income from operations	<u>\$ 5,979,875</u>	<u>\$ 1,805,553</u>		\$ 7,785,428
Other income, net				535,397
Income before income taxes				<u>\$ 8,320,825</u>
Capital Expenditures	\$ 2,246,381	\$ 1,015,710		\$ 3,262,091
For the Three Months Ended 06/30/16				
Sales to unaffiliated customers	\$ 22,408,685	\$ 22,697,149	\$ -	\$ 45,105,834
Intersegment sales	4,454,093	25,550	(4,479,643)	-
Total net sales	<u>\$ 26,862,778</u>	<u>\$ 22,722,699</u>	<u>\$ (4,479,643)</u>	<u>\$ 45,105,834</u>
Income from operations	<u>\$ 5,520,783</u>	<u>\$ 2,542,471</u>		\$ 8,063,254
Other income, net				186,512
Income before income taxes				<u>\$ 8,249,766</u>
Capital Expenditures	\$ 1,651,121	\$ 363,735		\$ 2,014,856

	Cement Business	Ready-Mix Concrete Business	Adjustments and Eliminations	Consolidated
For the Six Months Ended 06/30/17				
Sales to unaffiliated customers	\$ 38,710,346	\$ 38,124,805	\$ -	\$ 76,835,151
Intersegment sales	7,675,457	11,080	(76,865,387)	-
Total net sales	<u>\$ 46,385,803</u>	<u>\$ 38,135,885</u>	<u>\$ (76,865,387)</u>	<u>\$ 76,835,151</u>
Income from operations	<u>\$ 8,831,184</u>	<u>\$ 1,693,601</u>		\$ 10,524,785
Other income, net				783,195
Income before income taxes				<u>\$ 11,307,980</u>
Capital Expenditures	\$ 5,049,105	\$ 6,065,536		\$ 11,114,641
For the Six Months Ended 06/30/16				
Sales to unaffiliated customers	\$ 36,290,986	\$ 38,382,611	\$ -	\$ 74,673,597
Intersegment sales	7,678,528	27,586	(7,706,114)	-
Total net sales	<u>\$ 43,969,514</u>	<u>\$ 38,410,197</u>	<u>\$ (7,706,114)</u>	<u>\$ 74,673,597</u>
Income from operations	<u>\$ 7,492,047</u>	<u>\$ 2,575,645</u>		\$ 10,067,692
Other income, net				360,899
Income before income taxes				<u>\$ 10,428,591</u>
Capital Expenditures	\$ 4,201,895	\$ 5,003,255		\$ 9,205,150
Balance at 06/30/17				
Identifiable assets	<u>\$ 100,512,516</u>	<u>\$ 45,377,553</u>		\$ 145,890,069
Corporate assets				54,352,956
				<u>\$ 200,243,025</u>
Balance at 12/31/16				
Identifiable assets	<u>\$ 92,754,156</u>	<u>\$ 38,572,619</u>		\$ 131,326,775
Corporate assets				59,537,352
				<u>\$ 190,864,127</u>

(5) FAIR VALUE

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.

The aggregate amount of equity securities carried at cost for which the Company has not elected the fair value option, was \$0.9 million at June 30, 2017. The remaining \$33.3 million in equity security investments are stated at fair value. As of December 31, 2016, the aggregate amount of equity securities carried at cost was \$0.9 million and the remaining \$32.2 million in equity security investments were stated at fair value. The following table summarizes the bases used to measure certain assets at fair value on a recurring basis in the balance sheet at June 30, 2017 and December 31, 2016:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2017</u>				
Assets:	Fair Value			
Available-for-sale equity securities				
Cement industry	\$ 15,374,675	\$ 15,374,675	\$ -	\$ -
General building materials industry	12,149,842	12,149,842	-	-
Oil & gas refining and marketing industry	4,785,024	4,785,024	-	-
Residential construction industry	1,030,260	1,030,260	-	-
Total assets measured at fair value	<u>\$ 33,339,801</u>	<u>\$ 33,339,801</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2016</u>				
Assets:				
Available-for-sale equity securities				
Cement industry	\$ 15,822,611	\$ 15,822,611	\$ -	\$ -
General building materials industry	10,491,782	10,491,782	-	-
Oil & gas refining and marketing industry	4,953,589	4,953,589	-	-
Residential construction industry	964,950	964,950	-	-
Total assets measured at fair value	<u>\$ 32,232,932</u>	<u>\$ 32,232,932</u>	<u>\$ -</u>	<u>\$ -</u>

Cash and cash equivalents have carrying values that approximate fair value using Level 1 prices. Receivables, accounts payable and short and long-term debt have carrying values that approximate fair values using Level 2 inputs. 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 inputs). Investments that are recorded at cost or the equity method are evaluated quarterly for events that may adversely impact their carrying value.

There were no transfers between levels and there were no significant changes in the valuation techniques during the period ended June 30, 2017. 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 gross 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 June 30, 2017 and December 31, 2016:

Available-for-sale equity securities	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>June 30, 2017</u>						
Oil & gas refining and marketing industry	\$ 274,176	\$ 5,740	\$ -	\$ -	\$ 274,176	\$ 5,740
Total	<u>\$ 274,176</u>	<u>\$ 5,740</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 274,176</u>	<u>\$ 5,740</u>
<u>December 31, 2016</u>						
General building materials industry	\$ -	\$ -	\$ 124,627	\$ 8,493	\$ 124,627	\$ 8,493
Residential construction industry	468,690	26,277	-	-	468,690	26,277
Total	<u>\$ 468,690</u>	<u>\$ 26,277</u>	<u>\$ 124,627</u>	<u>\$ 8,493</u>	<u>\$ 593,317</u>	<u>\$ 34,770</u>

(6) INVESTMENTS

Cost Method Investments

The Company owns stock in a privately-owned company in the ethanol production industry. The investment, for which fair value approximates carrying value, was evaluated at June 30, 2017 and December 31, 2016 for impairment. The evaluations of the 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) and no impairments were identified. As a result of the

evaluations, the Company does not consider the cost method investment to be impaired at June 30, 2017 or December 31, 2016.

Fair Value Investments

Impairment Analysis

June 30, 2017--The Company's investments in available-for-sale securities carried at fair value are evaluated quarterly 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 in Note 5 "Fair Value"). These unrealized losses were immaterial when compared to the total Available-for-sale equity securities.

December 31, 2016--The Company's investments in available-for-sale 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 these evaluations, the Company identified a \$1.1 million other-than-temporary impairment for the third quarter in its oil & gas refining and marketing industry investments resulting in a recognized loss on equity investments. The fair value of those investments then became the new cost basis. 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 in Note 5 "Fair Value"). These unrealized losses were immaterial.

Investment Results

The investment results for June 30, 2017 and December 31, 2016 are as follows for available-for-sale equity securities carried at fair value:

June 30, 2017	Amortized Cost	Gross Unrealized Holding		Fair Value
		Gains	Losses	
Available-for-sale equity securities				
Cement industry	\$ 2,690,000	\$ 12,680,000	\$ -	\$ 15,370,000
General building materials industry	5,360,000	6,790,000	-	12,150,000
Oil & gas refining and marketing industry	2,160,000	2,630,000	-	4,790,000
Residential construction industry	730,000	300,000	-	1,030,000
Total available-for-sale equity securities	<u>\$ 10,940,000</u>	<u>\$ 22,400,000</u>	<u>\$ -</u>	<u>\$ 33,340,000</u>
		\$ 22,400,000		
Total gross unrealized gains, net of losses		8,960,000		
Less: Deferred taxes on unrealized holding gains		<u>\$ 13,440,000</u>		
Unrealized gains recorded in equity, net of deferred tax				
		\$ 22,340,000		
		8,936,000		
Unrealized gains recorded in equity, net of deferred tax		<u>\$ 13,404,000</u>		
December 31, 2016				
Available-for-sale equity securities				
Cement industry	\$ 2,690,000	\$ 13,130,000	\$ -	\$ 15,820,000
General building materials industry	4,620,000	5,870,000	-	10,490,000
Oil & gas refining and marketing industry	1,650,000	3,305,000	-	4,955,000
Residential construction industry	930,000	35,000	-	965,000
Total available-for-sale equity securities	<u>\$ 9,890,000</u>	<u>\$ 22,340,000</u>	<u>\$ -</u>	<u>\$ 32,230,000</u>
		\$ 22,340,000		
Total gross unrealized gains, net of losses		8,936,000		
Less: Deferred taxes on unrealized holding gains		<u>\$ 13,404,000</u>		
Unrealized gains recorded in equity, net of deferred tax				

Equity Method Investments

The Company owns common stock of GFI, a privately-owned company in the brick industry. The Company has determined that it has the ability to exercise significant influence, but not control, over the operating and financial policies of GFI. Consequently, the equity method of accounting is used for the investment.

Pertinent information about the Company's investment in GFI is as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Carrying value	\$ 7,097,877	\$ 6,787,591
Ownership percentage	32.04%	32.04%
Cash dividends received	\$ 12,077	\$ 32,206
Undistributed earnings	2,271,175	1,948,811
Difference between carrying amount and the underlying equity in net assets*	(51,740)	(39,663)
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Equity in earnings	\$ 322,364	\$ 195,358

* The difference between carrying amount and the underlying equity in net assets is in a memo account allocated to goodwill.

During the three months ended June 30, 2017 and 2016, the Company purchased \$0.4 million and \$0.4 million, respectively, of brick from GFI in arm's length transactions in the normal course of business for resale to third parties. During the six months ended June 30, 2017 and 2016, the Company purchased \$0.8 million and \$0.7 million, respectively, of brick from GFI in arm's length transactions in the normal course of business for resale to third parties. The Company eliminated intra-entity profits or losses for its proportionate share of GFI's common stock for inventory still remaining with the Company until such profits or losses were realized in transactions with third parties. Amounts due to GFI for Company purchases were not significant at June 30, 2017 and 2016.

The Company's equity method investment is reviewed for impairment on a periodic basis or if an event occurs or circumstances change that indicate the carrying amount may be impaired. This assessment is based on a review of the investment's performance and a review of indicators of impairment to determine if there is evidence of a loss in value of the investment. Factors the Company considers include:

- Absence of the Company's ability to recover the carrying amount;
- Inability of the equity affiliate to sustain an earnings capacity which would justify the carrying amount of the investment; and
- Significant litigation, bankruptcy or other events that could impact recoverability.

For an equity investment with impairment indicators, the Company measures fair value on the basis of discounted cash flows or other appropriate valuation methods (Level 3). If it is probable that the Company will not recover the carrying amount of its investment, the impairment is considered other-than-temporary and recorded in earnings, and the equity investment balance is reduced to its fair value accordingly. After review, the Company does not consider its equity method investment, for which fair value approximates carrying value, to be impaired at June 30, 2017 or December 31, 2016.

(7) PENSION AND OTHER POSTRETIREMENT BENEFITS

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 June 30, 2017 and 2016:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Service Cost	\$ 259,751	\$ 240,025	\$ 123,383	\$ 117,162
Interest Cost	512,094	504,242	219,492	216,376
Less: Expected return on plan assets	898,410	697,783	-	-
Amortization of prior service cost	22,857	25,142	(803,950)	(803,950)
Recognized net actuarial loss	270,997	484,398	105,932	122,848
Net periodic (benefit) expense	<u>\$ 167,289</u>	<u>\$ 556,024</u>	<u>\$ (355,143)</u>	<u>\$ (347,564)</u>

The following table presents the components of net periodic pension and postretirement benefit costs allocated to Cost of Sales and Selling, General and Administrative expenses for the six months ended June 30, 2017 and 2016:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Service Cost	\$ 519,502	\$ 480,050	\$ 246,766	\$ 234,324
Interest Cost	1,024,188	1,008,485	438,984	432,752
Less: Expected return on plan assets	1,796,820	1,395,566	-	-
Amortization of prior service cost	45,714	50,284	(1,607,900)	(1,607,900)
Recognized net actuarial loss	541,993	968,796	211,864	245,696
Net periodic (benefit) expense	<u>\$ 334,577</u>	<u>\$ 1,112,049</u>	<u>\$ (710,286)</u>	<u>\$ (695,128)</u>

As previously disclosed in our financial statements for the year ended December 31, 2016, there are no minimum expected contributions to the plans that Monarch must make. As of June 30, 2017, we have contributed approximately \$264,500 to the pension fund.

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, 2016, Monarch expects expenditures of approximately \$1,040,000 for this plan in 2017. As of June 30, 2017, we have contributed approximately \$440,000 and anticipate contributing an additional \$600,000 to this plan in 2017 for a total of \$1,040,000.

(8) OTHER LIABILITIES

The Company reached a settlement agreement in the Pensmore lawsuit on July 18, 2017 and has accrued \$1.7 million in accrued liabilities and \$2.7 million in long-term debt in the accompanying balance sheet.

(9) RECLASSIFICATION OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the reclassifications out of accumulated other comprehensive income and the affected line item in the statements where net income is presented for the three months ended June 30, 2017 and 2016:

Reclassification for	2017	2016
Net periodic pension and postretirement costs in:		
Cost of Sales	\$ 3,432	\$ 45,950
Tax benefit	(1,367)	(18,480)
Net of tax	<u>\$ 2,065</u>	<u>\$ 27,470</u>
Selling, General & Administrative Expenses	\$ 400,733	\$ 125,612
Tax expense	(159,633)	(50,520)
Net of tax	<u>\$ 241,100</u>	<u>\$ 75,092</u>
Unrealized net gains on available-for-sale securities in:		
Gain on sale of equity investments	\$ -	\$ 2,091
Tax benefit (expense)	-	-
Net of tax	<u>\$ -</u>	<u>\$ 2,091</u>
Reclassifications, net of tax	<u>\$ 243,165</u>	<u>\$ 104,653</u>

The following table presents the reclassifications out of accumulated other comprehensive income and the affected line item in the statements where net income is presented for the six months ended June 30, 2017 and 2016:

Reclassification for	2017	2016
Net periodic pension and postretirement costs in:		
Cost of Sales	\$ 788,202	\$ 91,900
Tax benefit	(315,924)	(36,960)
Net of tax	<u>\$ 472,278</u>	<u>\$ 54,940</u>
Selling, General & Administrative Expenses	\$ 20,128	\$ 251,224
Tax expense	(7,076)	(101,040)
Net of tax	<u>\$ 13,052</u>	<u>\$ 150,184</u>
Unrealized net gains on available-for-sale securities in:		
Gain on sale of equity investments	\$ 31,200	\$ 2,091
Tax expense	(12,000)	-
Net of tax	<u>\$ 19,200</u>	<u>\$ 2,091</u>
Reclassifications, net of tax	<u>\$ 504,530</u>	<u>\$ 207,215</u>

(10) OTHER NONOPERATING INCOME OR EXPENSE

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

(11) EARNINGS PER SHARE

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 3,860,789 and 3,860,789 in the second quarter and first six months of 2017, respectively. The weighted average number of shares outstanding was 3,860,789 and 3,860,789 in the second quarter and first six months of 2016, respectively. The Company has no capital stock equivalents and therefore, does not report diluted earnings per share.

(12) INCOME TAXES

The Company, or one of its subsidiaries, files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years before 2014. 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 six months ended June 30, 2017 or June 30, 2016.