

The Monarch Cement Company  
Quarterly Report  
September 30, 2018

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](mailto: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: September 30, 2018  
Total shares outstanding: 2,636,542 as of: September 30, 2018

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: September 30, 2018  
Total shares outstanding: 1,224,247 as of: September 30, 2018

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 third quarter of 2018 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 September 30, 2018.

**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 29, 1913.

C. Issuer's primary and secondary SIC Codes:

3241 – Cement, Hydraulic

3273 – Ready-Mixed Concrete

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.

<u>Officers</u>	<u>Directors</u>	<u>Control Persons</u>
Walter H. Wulf, Jr. <i>Chairman of the Board and Chief Executive Officer</i>	Jack R. Callahan	PDR Holdings, LLC
Kent A. Webber <i>President</i>	Mark A. Callaway	Walter H. Wulf, Jr.
*Robert M. Kissick <i>Vice Chairman of the Board and 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	
Tony D. Kasten <i>Assistant Secretary-Treasurer</i>	Byron J. Radcliff	
Kenneth G. Miller <i>Vice President - Cement Manufacturing</i>	Robert K. Radcliff	
N. Joan Perez <i>Vice President - Sales</i>	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 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.

PDR Holdings, LLC – 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., Chairman of the Board and Chief Executive Officer, certify that:

I have reviewed this Quarterly Report for the quarter ended September 30, 2018 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.

November 6, 2018

/s/ Walter H. Wulf, Jr.  
Chairman of the Board and  
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 September 30, 2018 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.

November 6, 2018

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

THE MONARCH CEMENT COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2018 AND DECEMBER 31, 2017

<b>ASSETS</b>	2018	2017
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 14,313,936	\$ 15,813,675
Receivables, less allowances of \$482,000 in 2018 and \$419,000 in 2017 for doubtful accounts	23,715,310	15,540,384
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 4,741,975	\$ 4,743,930
Work in process	3,551,977	4,533,716
Building products	4,007,277	3,906,910
Fuel, gypsum, paper sacks and other	5,876,363	5,343,092
Operating and maintenance supplies	15,324,791	15,374,562
Total inventories	\$ 33,502,383	\$ 33,902,210
Refundable federal and state income taxes	-	1,460,985
Prepaid expenses	1,077,250	457,702
<b>Total current assets</b>	<b>\$ 72,608,879</b>	<b>\$ 67,174,956</b>
Property, Plant and Equipment, at cost, less accumulated depreciation and depletion of \$246,015,654 in 2018 and \$235,531,226 in 2017	89,941,480	85,365,801
Deferred Income Taxes	2,293,045	-
Investments	29,856,906	41,348,373
Investments in Affiliates	8,382,697	7,597,662
Prepaid Pension	761,899	98,220
Other Assets	5,133,507	2,696,737
	<b>\$ 208,978,413</b>	<b>\$ 204,281,749</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 7,690,326	\$ 6,277,988
Current portion of other long-term debt	750,000	750,000
Accrued liabilities		
Dividends	-	1,351,276
Compensation and benefits	2,742,923	3,010,876
Federal and state income taxes	1,050,015	-
Miscellaneous taxes	1,194,498	679,086
Other	445,303	3,146,408
<b>Total current liabilities</b>	<b>\$ 13,873,065</b>	<b>\$ 15,215,634</b>
Deferred Income Taxes	-	279,955
Long-Term Debt	1,331,318	2,093,145
Accrued Postretirement Benefits	14,694,840	14,787,630
<b>Stockholders' Equity:</b>		
Capital stock, par value \$2.50 per share, one vote per share - Authorized 10,000,000 shares, Issued and Outstanding 2,636,542 shares at 09/30/2018 and 2,628,185 shares at 12/31/2017	\$ 6,591,355	\$ 6,570,463
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 1,224,247 shares at 09/30/2018 and 1,232,604 shares at 12/31/2017	3,060,618	3,081,510
Additional paid-in-capital	2,485,125	2,485,125
Retained earnings	177,537,303	148,503,541
Accumulated other comprehensive income (loss)	(10,595,211)	11,264,746
<b>Total Stockholders' Equity</b>	<b>\$ 179,079,190</b>	<b>\$ 171,905,385</b>
	<b>\$ 208,978,413</b>	<b>\$ 204,281,749</b>

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
NET SALES	\$ 55,360,547	\$ 48,671,043	\$ 129,616,028	\$ 125,506,194
COST OF SALES	38,991,096	33,099,649	97,628,680	87,699,224
<b>Gross profit from operations</b>	<b>\$ 16,369,451</b>	<b>\$ 15,571,394</b>	<b>\$ 31,987,348</b>	<b>\$ 37,806,970</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,823,756	4,729,579	14,457,270	17,582,347
<b>Income from operations</b>	<b>\$ 11,545,695</b>	<b>\$ 10,841,815</b>	<b>\$ 17,530,078</b>	<b>\$ 20,224,623</b>
OTHER INCOME (EXPENSE):				
Interest income	\$ 46,706	\$ 57,007	\$ 139,976	\$ 107,808
Interest expense	(614)	1,353	(8,693)	(25,601)
Gain on sale of equity investments	878,753	-	3,637,552	31,200
Unrealized loss on equity investments (Note 7)	(5,460,000)	-	(10,190,000)	-
Dividend income	171,540	159,237	484,826	434,941
Other, net	834,640	523,775	2,479,403	2,118,196
	<u>\$ (3,528,975)</u>	<u>\$ 741,372</u>	<u>\$ (3,456,936)</u>	<u>\$ 2,666,544</u>
<b>Income before income taxes</b>	<b>\$ 8,016,720</b>	<b>\$ 11,583,187</b>	<b>\$ 14,073,142</b>	<b>\$ 22,891,167</b>
PROVISION FOR INCOME TAXES	1,925,000	3,500,000	3,380,000	6,900,000
Equity in affiliate earnings, net of tax	643,600	309,522	837,370	631,886
<b>NET INCOME</b>	<b>\$ 6,735,320</b>	<b>\$ 8,392,709</b>	<b>\$ 11,530,512</b>	<b>\$ 16,623,053</b>
RETAINED EARNINGS, beg. of period	\$ 172,346,299	\$ 141,089,454	\$ 169,674,541	\$ 134,210,386
Less cash dividends	1,544,316	1,351,276	3,667,750	2,702,552
<b>RETAINED EARNINGS, end of period</b>	<b>\$ 177,537,303</b>	<b>\$ 148,130,887</b>	<b>\$ 177,537,303</b>	<b>\$ 148,130,887</b>
<b>Basic earnings per share</b>	<b>\$ 1.75</b>	<b>\$ 2.17</b>	<b>\$ 2.99</b>	<b>\$ 4.31</b>
<b>Cash dividends per share</b>	<b>\$ 0.40</b>	<b>\$ 0.35</b>	<b>\$ 0.95</b>	<b>\$ 0.70</b>

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
<b>NET INCOME</b>	<b>\$ 6,735,320</b>	<b>\$ 8,392,709</b>	<b>\$ 11,530,512</b>	<b>\$ 16,623,053</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS), net of deferred tax</b>				
UNREALIZED APPRECIATION (DEPRECIATION) ON AVAILABLE- FOR-SALE SECURITIES (Net of deferred tax expense (benefit) of \$0, \$740,000, \$0 and \$776,000, respectively)	-	1,110,000	-	1,165,200
RECLASSIFICATION ADJUSTMENT FOR SALE OF SECURITIES INCLUDED IN NET INCOME (LOSS) (Net of deferred tax expense of \$0, \$0, \$0 and \$12,000, respectively)	-	-	-	(19,200)
AMORTIZATION OF PENSION AND POSTRETIREMENT PRIOR SERVICE COST (Net of deferred tax expense of \$199,000, \$312,000, \$598,000 and \$937,000, respectively)	(567,094)	(469,093)	(1,702,306)	(1,406,279)
AMORTIZATION OF PENSION AND POSTRETIREMENT LOSS (Net of deferred tax benefit of \$(121,000), \$(150,000), \$(356,000) and \$(452,000), respectively)	345,973	226,930	1,013,349	678,786
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS), net of deferred tax</b>	<b>\$ (221,121)</b>	<b>\$ 867,837</b>	<b>\$ (688,957)</b>	<b>\$ 418,507</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 6,514,199</b>	<b>\$ 9,260,546</b>	<b>\$ 10,841,555</b>	<b>\$ 17,041,560</b>

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, 2018 AND 2017 (UNAUDITED)

	2018	2017
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 11,530,512	\$ 16,623,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,900,054	10,616,940
Income from equity method investments, net of dividends received	(785,035)	(589,615)
Increase in long-term notes receivable	(88,562)	-
Deferred income taxes	(2,431,000)	(94,000)
Gain on disposal of assets	(157,977)	(653,852)
Realized gain on sale of equity investments	(3,637,552)	(31,200)
Unrealized holding loss	10,190,000	-
Postretirement benefits and pension expense	(1,687,426)	(1,962,697)
Change in assets and liabilities:		
Receivables, net	(7,978,531)	(6,030,637)
Inventories	416,102	(2,948,572)
Refundable income taxes	1,460,985	1,146,981
Prepaid expenses	(619,548)	121,600
Other assets	(186,291)	11,571
Accounts payable and accrued liabilities	(546,311)	6,951,874
Net cash provided by operating activities	<u>\$ 17,379,420</u>	<u>\$ 23,161,446</u>
<b>INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	\$ (14,598,666)	\$ (14,233,221)
Proceeds from disposals of property, plant and equipment	245,505	677,626
Payment for acquisition of business, net of cash acquired	(3,550,214)	-
Payment for purchases of available-for-sale equity investments	(1,082,051)	(1,712,199)
Proceeds from disposals of available-for-sale equity investments	6,021,070	235,747
Net cash used for investing activities	<u>\$ (12,964,356)</u>	<u>\$ (15,032,047)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments on bank loans	\$ -	\$ (4,285,714)
Payments on other long-term debt	(761,827)	(16,983)
Cash dividends paid	(5,019,026)	(3,860,789)
Purchase of capital stock	(133,950)	(30,120)
Net cash used for financing activities	<u>\$ (5,914,803)</u>	<u>\$ (8,193,606)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (1,499,739)</b>	<b>\$ (64,207)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b><u>15,813,675</u></b>	<b><u>12,117,812</u></b>
<b>Cash and Cash Equivalents, end of period</b>	<b><u>\$ 14,313,936</u></b>	<b><u>\$ 12,053,605</u></b>
Supplemental disclosures:		
Interest paid, net of amount capitalized	\$ 8,693	\$ 25,601
Income taxes paid	3,300,000	4,500,000
Capital equipment additions included in accounts payable and accrued liabilities	133,077	972,329
Capital stock repurchases included in accrued liabilities	193,590	327,540

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 September 30, 2018, the amount of accounts payable related to property, plant and equipment was approximately \$133,000 compared to December 31, 2017 which was approximately \$119,000.

**(3) INVENTORIES**

We did not incur a temporary last-in, first-out (LIFO) liquidation gain during the three months and nine months ended September 30, 2018 or September 30, 2017.

**(4) REVENUE RECOGNITION**

There have been no changes to the amount or timing of our revenue recognition as a result of our adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The Company records revenue from the sale of cement, ready-mixed concrete, concrete products and sundry building materials following delivery of the products to customers. In the event the Company receives advance payment on orders, we defer revenue recognition until the product is delivered.

**(5) LINES OF BUSINESS**

Corporate assets for 2018 and 2017 include cash and cash equivalents, deferred income taxes, refundable federal and state income taxes, prepaid pension, 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
<b>For the Three Months Ended 09/30/18</b>				
Sales to unaffiliated customers	\$ 31,369,676	\$ 23,990,871	\$ -	\$ 55,360,547
Intersegment sales	4,962,141	109,124	(5,071,265)	-
Total net sales	<u>\$ 36,331,817</u>	<u>\$ 24,099,995</u>	<u>\$ (5,071,265)</u>	<u>\$ 55,360,547</u>
Income from operations	<u>\$ 11,317,618</u>	<u>\$ 228,077</u>		<u>\$ 11,545,695</u>
Other expense, net				<u>(3,528,975)</u>
Income before income taxes				<u>\$ 8,016,720</u>
Capital Expenditures	\$ 2,096,252	\$ 877,564		\$ 2,973,816

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
<b>For the Three Months Ended 09/30/17</b>				
Sales to unaffiliated customers	\$ 26,316,205	\$ 22,354,838	\$ -	\$ 48,671,043
Intersegment sales	4,540,292	46,843	(4,587,135)	-
Total net sales	<u>\$ 30,856,497</u>	<u>\$ 22,401,681</u>	<u>\$ (4,587,135)</u>	<u>\$ 48,671,043</u>
Income from operations	<u>\$ 10,825,819</u>	<u>\$ 15,996</u>		<u>\$ 10,841,815</u>
Other income, net				741,372
Income before income taxes				<u>\$ 11,583,187</u>
Capital Expenditures	\$ 3,195,607	\$ 729,986		<u>\$ 3,925,593</u>
<b>For the Nine Months Ended 09/30/18</b>				
Sales to unaffiliated customers	\$ 69,487,770	\$ 60,128,258	\$ -	\$ 129,616,028
Intersegment sales	12,249,040	223,927	(12,472,967)	-
Total net sales	<u>\$ 81,736,810</u>	<u>\$ 60,352,185</u>	<u>\$ (12,472,967)</u>	<u>\$ 129,616,028</u>
Income (loss) from operations	<u>\$ 17,868,188</u>	<u>\$ (338,110)</u>		<u>\$ 17,530,078</u>
Other expense, net				(3,456,936)
Income before income taxes				<u>\$ 14,073,142</u>
Capital Expenditures	\$ 6,523,691	\$ 8,788,682		<u>\$ 15,312,373</u>
<b>For the Nine Months Ended 09/30/17</b>				
Sales to unaffiliated customers	\$ 65,026,551	\$ 60,479,643	\$ -	\$ 125,506,194
Intersegment sales	12,215,749	57,923	(12,273,672)	-
Total net sales	<u>\$ 77,242,300</u>	<u>\$ 60,537,566</u>	<u>\$ (12,273,672)</u>	<u>\$ 125,506,194</u>
Income from operations	<u>\$ 18,515,026</u>	<u>\$ 1,709,597</u>		<u>\$ 20,224,623</u>
Other income, net				2,666,544
Income before income taxes				<u>\$ 22,891,167</u>
Capital Expenditures	\$ 8,244,712	\$ 6,795,522		<u>\$ 15,040,234</u>
<b>Balance at 09/30/2018</b>				
Identifiable Assets	<u>\$ 100,543,401</u>	<u>\$ 47,693,022</u>		\$ 148,236,423
Corporate Assets				60,741,990
				<u>\$ 208,978,413</u>
<b>Balance at 12/31/2017</b>				
Identifiable Assets	<u>\$ 96,387,430</u>	<u>\$ 38,878,667</u>		\$ 135,266,097
Corporate Assets				69,015,652
				<u>\$ 204,281,749</u>

**(6) 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.

Cash and cash equivalents, receivables, accounts payable and short and long-term debt have carrying values that approximate fair values. 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. Equity investments that do not have readily determinable market prices were remeasured to fair value either upon the occurrence of an observable price change or upon identification of an impairment.

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.

## (7) INVESTMENTS

### Equity Investments

The Company adopted ASU 2016-01, *Financial Instruments*, in the first quarter of 2018 and recorded a \$21.2 million cumulative effect adjustment to retained earnings as of January 1, 2018 to implement the standard. Beginning in 2018, the Company is recognizing gross unrealized gains and losses on their investments in net income. The following table shows the gross unrealized gains (losses) recorded in the income statement aggregated by investment category at:

	<u>September 30, 2018</u>
Cement industry	\$ (4,765,000)
General building materials industry	(3,910,000)
Oil & gas refining and marketing industry	(1,240,000)
Residential construction industry	(275,000)
Total	<u>\$ (10,190,000)</u>

The following table shows the fair value of the Company's investments aggregated by investment category at:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Cement industry	\$ 11,151,013	\$ 17,027,515
General building materials industry	10,027,044	13,398,711
Oil & gas refining and marketing industry	7,804,468	9,947,922
Residential construction industry	874,381	974,225
Total	<u>\$ 29,856,906</u>	<u>\$ 41,348,373</u>

### 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>September 30, 2018</u>	<u>December 31, 2017</u>
Carrying value	\$ 8,382,697	\$ 7,597,662
Ownership percentage	32.04%	32.04%
Cash dividends received	\$ 52,335	\$ 42,271
Undistributed earnings	3,638,523	2,801,154
Difference between carrying amount and the underlying equity in net assets*	(134,269)	(81,933)
	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Equity in earnings	\$ 837,370	\$ 631,886

\* 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 September 30, 2018 and 2017, the Company purchased \$0.2 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 nine months ended September 30, 2018 and 2017, the Company purchased \$0.6 million and \$1.2 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 September 30, 2018 and 2017.

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. If it is probable that the Company will not recover the carrying amount of its investment, the impairment is 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 September 30, 2018 or December 31, 2017.

## **(8) PENSION AND OTHER POSTRETIREMENT BENEFITS**

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes the presentation of the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs. The other components of net benefit cost will be included in nonoperating expense. A practical expedient is provided that permits entities to use the components of cost disclosed in prior years as a basis for the retrospective application of the new income statement presentation. The adoption of this standard, including the practical expedient, did not have a material impact on our consolidated financial statements. For the three months ended September 30, 2017, the Company reclassified \$(447,042) and \$(123,946) from cost of sales and selling, general and administrative (income) expenses, retrospectively, to nonoperating income. For the nine months ended September 30, 2017, the Company reclassified \$(1,341,127) and \$(371,838) from cost of sales and selling, general and administrative (income) expenses, retrospectively, to nonoperating income.

The following table presents the components of net periodic pension and postretirement benefit costs for the three months ended September 30, 2018 and 2017:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Service Cost	\$ 293,547	\$ 259,751	\$ 58,892	\$ 123,383
Interest Cost	484,449	512,094	136,470	219,492
Less: Expected return on plan assets	1,010,420	898,410	-	-
Amortization of prior service cost	17,914	22,857	(784,008)	(803,950)
Recognized net actuarial loss	329,827	270,997	137,146	105,932
Net periodic (benefit) expense	<u>\$ 115,317</u>	<u>\$ 167,289</u>	<u>\$ (451,500)</u>	<u>\$ (355,143)</u>

The following table presents the components of net periodic pension and postretirement benefit costs for the nine months ended September 30, 2018 and 2017:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Service Cost	\$ 853,623	\$ 779,253	\$ 176,676	\$ 370,149
Interest Cost	1,402,663	1,536,282	409,410	658,476
Less: Expected return on plan assets	2,919,964	2,695,230	-	-
Amortization of prior service cost	51,718	68,571	(2,352,024)	(2,411,850)
Recognized net actuarial loss	957,911	812,990	411,438	317,796
Net periodic (benefit) expense	<u>\$ 345,951</u>	<u>\$ 501,866</u>	<u>\$ (1,354,500)</u>	<u>\$ (1,065,429)</u>

The components of net periodic benefit cost other than the service cost component are included in the line item Other, net in the income statement.

As previously disclosed in our financial statements for the year ended December 31, 2017, there are no minimum expected contributions to the pension plans for the year 2018. As of September 30, 2018, we have made no contributions to the plans.

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, 2017, Monarch expects expenditures of approximately \$964,000 for this plan in 2018. As of September 30, 2018, we have contributed approximately \$680,000 and anticipate contributing an additional \$284,000 to this plan in 2018 for a total of \$964,000.

#### **(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 September 30, 2018 and 2017:

Reclassification for	2018	2017
Net periodic pension and postretirement costs in:		
Other, net	\$ 299,121	\$ 404,163
Tax expense	(78,000)	(162,000)
Net of tax	<u>\$ 221,121</u>	<u>\$ 242,163</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 nine months ended September 30, 2018 and 2017:

Reclassification for	2018	2017
Net periodic pension and postretirement costs in:		
Other, net	\$ 930,957	\$ 1,212,493
Tax expense	(242,000)	(485,000)
Net of tax	<u>\$ 688,957</u>	<u>\$ 727,493</u>
Unrealized net gains on available-for-sale securities in:		
Gain on sale of equity investments	\$ -	\$ 31,200
Tax expense	-	(12,000)
Net of tax	<u>\$ -</u>	<u>\$ 19,200</u>
Reclassifications, net of tax	<u>\$ 688,957</u>	<u>\$ 746,693</u>

## (10) OTHER NONOPERATING INCOME OR EXPENSE

Other, net contains miscellaneous nonoperating income (expense) items other than interest income, interest expense, gains on sale of equity investments, unrealized gains (losses) 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 third quarter and first nine months of 2018, respectively. The weighted average number of shares outstanding was 3,860,789 and 3,860,789 in the third quarter and first nine months of 2017, 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 nine months ended September 30, 2018 or September 30, 2017.

## (13) ACQUISITIONS

### Hays Ready Mix, Inc.

On February 9, 2018, the Company purchased all of the common stock of Hays Ready-Mix, Inc. and the ready-mix concrete assets of a related business located in Great Bend and Larned, Kansas. The combined business is included in our Ready-Mixed Concrete Business, and was acquired primarily to obtain additional markets and to improve manufacturing efficiencies. The consideration for acquiring Hays Ready-Mix stock and related assets totaled \$2.6 million.

In accordance with Accounting Standards Codification (ASC) 805, the Company determined the assets and liabilities acquired constituted a business and applied purchase accounting to the assets acquired and the liabilities assumed. Since Hays Ready-Mix is not a substantial subsidiary, pro forma information is not provided for the combined entity. The following table summarizes the consideration paid for acquisition of the assets acquired and the liabilities assumed at the acquisition date as well as the fair value at the acquisition date:

Consideration:		
Cash paid, gross	\$	2,592,589
Fair Value of assets acquired and liabilities assumed:		
Assets		
Cash	\$	7,079
Accounts receivable		196,395
Property, plant and equipment		1,037,000
Goodwill		2,127,376
Liabilities		
Accounts payable		(456,459)
Short-term debt		(16,942)
Accrued liabilities		(201,860)
Deferred taxes		(100,000)
Total:	\$	<u>2,592,589</u>

## **Neosho Concrete Products Company**

On March 31, 2018, the Company purchased the ready-mix concrete assets of Neosho Concrete Products Company, which is included in our Ready-Mixed Concrete Business, primarily to obtain additional markets and to improve manufacturing efficiencies. The consideration for acquiring these assets totaled \$0.9 million.