

The Monarch Cement Company  
Quarterly Report  
September 30, 2016

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, 2016  
Total shares outstanding: 2,611,430 as of: September 30, 2016

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, 2016  
Total shares outstanding: 1,249,359 as of: September 30, 2016

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, a total of 600 shares of Monarch's Capital Stock were issued in the third quarter of 2016 upon conversion of an equal number of shares of Monarch's Class B Capital Stock, including the following share conversions as indicated below:

Shares of Capital Stock Issued Upon Conversion  
of Class B Capital Stock

<u>Date</u>	<u>Number of Shares</u>
August 29, 2016	<u>600</u>
	<u>600</u>

The Company received no payment in connection with the issuances of such shares. No underwriters were involved with the issuance of such shares and no commissions were paid in connection with such issuances. There was no advertisement or general solicitation made in connection with the issuance of such shares. Except as described above, Monarch did not issue or sell any shares of its Capital Stock or Class B Capital Stock during the quarter ending September 30, 2016.

**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>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 – 10.68%

P.O. Box 100

Dexter, Kansas 67038

**9) Third Party Providers**

Legal Counsel

James W. Allen

Stinson Leonard Street LLP

1201 Walnut Street, Suite 2900

Kansas City, MO 64106-2150

Phone: (816) 691-3211

Email: [james.allen@stinson.com](mailto:james.allen@stinson.com)

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

James W. Allen

Stinson Leonard Street LLP

1201 Walnut Street, Suite 2900

Kansas City, MO 64106-2150

Phone: (816) 691-3211

Email: [james.allen@stinson.com](mailto:james.allen@stinson.com)

**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 September 30, 2016 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 10, 2016

/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 September 30, 2016 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 10, 2016

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

The Monarch Cement Company and Subsidiaries

Condensed Consolidated Balance Sheets

September 30, 2016 (Unaudited) and December 31, 2015

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 4,334,243	\$ 6,612,180
Receivables, less allowances of \$496,000 in 2016 and \$524,000 in 2015 for doubtful accounts	24,253,017	14,377,672
Inventories, priced at cost which is not in excess of market-		
Finished cement	\$ 5,274,533	\$ 5,827,904
Work in process	3,185,229	3,637,693
Building products	4,235,375	3,734,990
Fuel, gypsum, paper sacks and other	7,239,983	7,074,199
Operating and maintenance supplies	14,348,394	13,903,745
Total inventories	\$ 34,283,514	\$ 34,178,531
Prepaid expenses	1,666,053	599,766
<b>Total current assets</b>	<b>\$ 64,536,827</b>	<b>\$ 55,768,149</b>
Property, Plant and Equipment, at cost, less accumulated depreciation and depletion of \$223,346,895 in 2016 and \$213,306,179 in 2015	83,267,956	83,456,790
Deferred Income Taxes	11,036,736	11,295,736
Investments	25,749,706	22,446,008
Investments in Affiliates	6,609,993	6,238,697
Other Assets	2,731,192	2,808,971
	<b>\$ 193,932,410</b>	<b>\$ 182,014,351</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 7,184,545	\$ 5,481,096
Current portion of bank loans	1,428,571	1,428,571
Accrued liabilities	9,111,661	9,559,666
<b>Total current liabilities</b>	<b>\$ 17,724,777</b>	<b>\$ 16,469,333</b>
Long-Term Debt	3,254,421	4,342,006
Accrued Postretirement Benefits	23,924,836	23,609,837
Accrued Pension Expense	11,684,568	13,213,113
Stockholders' Equity:		
Capital Stock, par value \$2.50 per share, one vote per share - Authorized 10,000,000 shares, Issued and Outstanding 2,611,430 shares at 09/30/2016 and 2,607,705 shares at 12/31/2015	\$ 6,528,575	\$ 6,519,263
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 1,249,359 shares at 09/30/2016 and 1,253,084 shares at 12/31/2015	3,123,398	3,132,710
Additional paid-in-capital	2,485,125	2,485,125
Retained earnings	130,097,078	117,683,646
Accumulated other comprehensive loss	(4,890,368)	(5,440,682)
<b>Total stockholders' equity</b>	<b>\$ 137,343,808</b>	<b>\$ 124,380,062</b>
	<b>\$ 193,932,410</b>	<b>\$ 182,014,351</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, 2016 and 2015 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
NET SALES	\$ 48,190,713	\$ 46,981,600	\$ 122,864,310	\$ 108,836,270
COST OF SALES	32,803,721	34,585,449	89,494,901	86,376,479
<b>Gross profit from operations</b>	<b>\$ 15,386,992</b>	<b>\$ 12,396,151</b>	<b>\$ 33,369,409</b>	<b>\$ 22,459,791</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,736,945	3,956,151	11,651,670	11,521,508
<b>Income from operations</b>	<b>\$ 11,650,047</b>	<b>\$ 8,440,000</b>	<b>\$ 21,717,739</b>	<b>\$ 10,938,283</b>
OTHER INCOME (EXPENSE):				
Interest income	\$ 37,571	\$ 37,244	\$ 86,509	\$ 86,967
Interest expense	(22,739)	(86,111)	(102,936)	(197,615)
Gain on sale of equity investments	7,630	8,343,407	9,721	8,343,407
Loss on impairment of equity investments	(1,065,662)	-	(1,065,662)	-
Dividend income	128,116	154,059	367,493	457,549
Other, net	207,849	665,625	358,539	888,277
	<u>\$ (707,235)</u>	<u>\$ 9,114,224</u>	<u>\$ (346,336)</u>	<u>\$ 9,578,585</u>
<b>Income before income taxes</b>	<b>\$ 10,942,812</b>	<b>\$ 17,554,224</b>	<b>\$ 21,371,403</b>	<b>\$ 20,516,868</b>
PROVISION FOR INCOME TAXES	3,605,000	4,910,000	7,045,000	5,740,000
Equity in affiliate earnings, net of tax	208,144	191,499	403,502	196,473
<b>NET INCOME</b>	<b>\$ 7,545,956</b>	<b>\$ 12,835,723</b>	<b>\$ 14,729,905</b>	<b>\$ 14,973,341</b>
RETAINED EARNINGS, beg. of period	\$ 123,709,358	\$ 104,532,686	\$ 117,683,646	\$ 103,482,537
Less cash dividends	1,158,236	965,785	2,316,473	1,932,666
Less purchase and retirement of capital stock	-	-	-	120,588
<b>RETAINED EARNINGS, end of period</b>	<b>\$ 130,097,078</b>	<b>\$ 116,402,624</b>	<b>\$ 130,097,078</b>	<b>\$ 116,402,624</b>
<b>Basic earnings per share</b>	<b>\$ 1.95</b>	<b>\$ 3.32</b>	<b>\$ 3.82</b>	<b>\$ 3.87</b>
<b>Cash dividends per share</b>	<b>\$ 0.30</b>	<b>\$ 0.25</b>	<b>\$ 0.60</b>	<b>\$ 0.50</b>

Condensed Consolidated Statements of Comprehensive Income  
For the Three Months and the Nine Months Ended September 30, 2016 and 2015 (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
<b>NET INCOME</b>	<b>\$ 7,545,956</b>	<b>\$ 12,835,723</b>	<b>\$ 14,729,905</b>	<b>\$ 14,973,341</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 \$(532,000), \$808,000, \$148,000, and \$2,328,000, respectively)	(796,032)	1,215,407	226,059	3,495,407
RECLASSIFICATION ADJUSTMENT FOR SALE OF SECURITIES INCLUDED IN NET INCOME (LOSS) (Net of deferred tax expense of \$4,000, \$3,336,000, \$4,000, and \$3,336,000, respectively)	(3,630)	(5,007,407)	(5,721)	(5,007,407)
RECLASSIFICATION ADJUSTMENT FOR WRITE-DOWN OF SECURITIES INCLUDED IN NET INCOME (Net of deferred tax (benefit) expense of \$(428,000), \$0, \$(428,000), and \$0, respectively)	637,662	-	637,662	-
AMORTIZATION OF PENSION AND POSTRETIREMENT, PRIOR SERVICE COST (Net of deferred tax expense of \$312,000, \$226,000, \$935,000, and \$679,000, respectively)	(466,808)	(339,601)	(1,401,424)	(1,018,157)
AMORTIZATION OF PENSION AND POSTRETIREMENT LOSS (Net of deferred tax benefit of \$(243,000), \$(172,000), \$(728,000), and \$(503,000), respectively)	364,246	258,994	1,093,738	754,940
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS), net of deferred tax</b>	<b>\$ (264,562)</b>	<b>\$ (5,088,014)</b>	<b>\$ 550,314</b>	<b>\$ (1,775,217)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 7,281,394</b>	<b>\$ 7,747,709</b>	<b>\$ 15,280,219</b>	<b>\$ 13,198,124</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, 2016 and 2015 (Unaudited)

	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 14,729,905	\$ 14,973,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	10,777,507	10,699,222
Income from equity method investments, net of dividends received	(371,296)	(187,890)
Deferred income taxes	(106,000)	234,000
Gain on disposal of assets	(266,494)	(521,907)
Realized gain on sale of equity investments	(9,721)	(8,343,406)
Realized loss on impairment of equity investments	1,065,662	-
Postretirement benefits and pension expense	(1,728,232)	(2,522,608)
Change in assets and liabilities:		
Receivables, net	(9,875,345)	(9,207,608)
Inventories	(104,983)	(681,387)
Refundable income taxes	-	391,029
Prepaid expenses	(1,066,287)	375,177
Other assets	(6,876)	7,994
Accounts payable and accrued liabilities	2,207,510	2,263,557
Net cash provided by operating activities	<u>\$ 15,245,350</u>	<u>\$ 7,479,514</u>
<b>INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	\$ (10,997,598)	\$ (11,178,651)
Proceeds from disposals of property, plant and equipment	857,385	652,734
Payment for purchases of available-for-sale equity investments	(3,310,762)	(1,574,615)
Proceeds from disposals of available-for-sale equity investments	381,123	11,381,520
Net cash used for investing activities	<u>\$ (13,069,852)</u>	<u>\$ (719,012)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments on bank loans	\$ (1,071,428)	\$ (1,071,429)
Payments on other long-term debt	(16,157)	(84,736)
Cash dividends paid	(3,281,670)	(2,822,196)
Purchase of capital stock	(84,180)	(131,550)
Net cash used for financing activities	<u>\$ (4,453,435)</u>	<u>\$ (4,109,911)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (2,277,937)</b>	<b>\$ 2,650,591</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b><u>6,612,180</u></b>	<b><u>7,262,355</u></b>
<b>Cash and Cash Equivalents, end of period</b>	<b><u>\$ 4,334,243</u></b>	<b><u>\$ 9,912,946</u></b>
Supplemental disclosures:		
Interest paid, net of amount capitalized	\$ 102,936	\$ 197,615
Income taxes paid	4,560,000	1,075,000
Income tax refund	-	(165,566)
Capital equipment additions included in accounts payable and accrued liabilities	448,853	220,373
Capital stock repurchases included in accrued liabilities	405,660	494,640

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.

**(2) PROPERTY, PLANT AND EQUIPMENT**

As of September 30, 2016, the amount of accounts payable related to property, plant and equipment was approximately \$449,000 compared to December 31, 2015 which was approximately \$352,000.

**(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, 2016 or September 30, 2015.

**(4) LINES OF BUSINESS**

Corporate assets for 2016 and 2015 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-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
<b>For the Three Months Ended 09/30/16</b>				
Sales to unaffiliated customers	\$ 23,188,727	\$ 25,001,986	\$ -	\$ 48,190,713
Intersegment sales	5,030,057	2,945	(5,033,002)	-
Total net sales	<u>\$ 28,218,784</u>	<u>\$ 25,004,931</u>	<u>\$ (5,033,002)</u>	<u>\$ 48,190,713</u>
Income from operations	<u>\$ 9,028,707</u>	<u>\$ 2,621,340</u>		<u>\$ 11,650,047</u>
Other loss, net				(707,235)
Income before income taxes				<u>\$ 10,942,812</u>
Capital Expenditures	\$ 1,523,560	\$ 366,199		<u>\$ 1,889,759</u>
<b>For the Three Months Ended 09/30/15</b>				
Sales to unaffiliated customers	\$ 21,791,443	\$ 25,190,157	\$ -	\$ 46,981,600
Intersegment sales	5,192,930	-	(5,192,930)	-
Total net sales	<u>\$ 26,984,373</u>	<u>\$ 25,190,157</u>	<u>\$ (5,192,930)</u>	<u>\$ 46,981,600</u>
Income from operations	<u>\$ 7,002,434</u>	<u>\$ 1,437,566</u>		<u>\$ 8,440,000</u>
Other income, net				9,114,224
Income before income taxes				<u>\$ 17,554,224</u>
Capital Expenditures	\$ 766,232	\$ 207,253		<u>\$ 973,485</u>

	Cement Business	Ready-Mixed Concrete Business	Adjustments and Eliminations	Consolidated
<b>For the Nine Months Ended 09/30/16</b>				
Sales to unaffiliated customers	\$ 59,479,713	\$ 63,384,597	\$ -	\$ 122,864,310
Intersegment sales	12,708,585	30,531	(12,739,116)	-
Total net sales	<u>\$ 72,188,298</u>	<u>\$ 63,415,128</u>	<u>\$ (12,739,116)</u>	<u>\$ 122,864,310</u>
Income from operations	<u>\$ 16,520,754</u>	<u>\$ 5,196,985</u>		<u>\$ 21,717,739</u>
Other loss, net				(346,336)
Income before income taxes				<u>\$ 21,371,403</u>
Capital Expenditures	\$ 5,725,455	\$ 5,369,454		\$ 11,094,909
<b>For the Nine Months Ended 09/30/15</b>				
Sales to unaffiliated customers	\$ 51,004,551	\$ 57,831,719	\$ -	\$ 108,836,270
Intersegment sales	11,693,130	26,539	(11,719,669)	-
Total net sales	<u>\$ 62,697,681</u>	<u>\$ 57,858,258</u>	<u>\$ (11,719,669)</u>	<u>\$ 108,836,270</u>
Income from operations	<u>\$ 10,198,525</u>	<u>\$ 739,758</u>		<u>\$ 10,938,283</u>
Other income, net				9,578,585
Income before income taxes				<u>\$ 20,516,868</u>
Capital Expenditures	\$ 6,220,421	\$ 4,369,523		\$ 10,589,944
<b>Balance at 09/30/16</b>				
Identifiable assets	<u>\$ 98,695,140</u>	<u>\$ 44,775,400</u>		\$ 143,470,540
Corporate assets				50,461,870
				<u>\$ 193,932,410</u>
<b>Balance at 12/31/15</b>				
Identifiable assets	<u>\$ 93,655,658</u>	<u>\$ 38,957,101</u>		\$ 132,612,759
Corporate assets				49,401,592
				<u>\$ 182,014,351</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 September 30, 2016. The remaining \$24.9 million in equity security investments are stated at fair value. As of December 31, 2015, the aggregate amount of equity securities carried at cost was \$0.9 million and the remaining \$21.6 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 September 30, 2016 and December 31, 2015:

## Fair Value Measurements Using:

September 30, 2016	Fair Value	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)
<b>Assets:</b>				
Available-for-sale equity securities				
Cement industry	\$ 12,606,047	\$ 12,606,047	\$ -	\$ -
General building materials industry	8,706,104	8,706,104	-	-
Oil & gas refining & marketing industry	2,513,025	2,513,025	-	-
Residential construction industry	1,052,100	1,052,100	-	-
Total assets measured at fair value	<u>\$ 24,877,276</u>	<u>\$ 24,877,276</u>	<u>\$ -</u>	<u>\$ -</u>
<b>December 31, 2015</b>				
<b>Assets:</b>				
Available-for-sale equity securities				
Cement industry	\$ 9,337,662	\$ 9,337,662	\$ -	\$ -
General building materials industry	6,533,795	6,533,795	-	-
Oil & gas refining & marketing industry	4,781,025	4,781,025	-	-
Residential construction industry	940,896	940,896	-	-
Total assets measured at fair value	<u>\$ 21,593,378</u>	<u>\$ 21,593,378</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 September 30, 2016. 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 September 30, 2016 and December 31, 2015:

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
<b>September 30, 2016</b>						
General building materials industry	\$ 1,327,522	\$ 177,718	\$ 429,284	\$ 97,132	\$ 1,756,806	\$ 274,850
Total	<u>\$ 1,327,522</u>	<u>\$ 177,718</u>	<u>\$ 429,284</u>	<u>\$ 97,132</u>	<u>\$ 1,756,806</u>	<u>\$ 274,850</u>
<b>December 31, 2015</b>						
Cement industry	\$ 534,091	\$ 73,816	\$ -	\$ -	\$ 534,091	\$ 73,816
General building materials industry	821,760	96,202	-	-	821,760	96,202
Oil & gas refining & marketing industry	566,640	38,698	-	-	566,640	38,698
Residential construction industry	602,316	69,520	-	-	602,316	69,520
Total	<u>\$ 2,524,807</u>	<u>\$ 278,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,524,807</u>	<u>\$ 278,237</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 September 30, 2016 and December 31, 2015 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 September 30, 2016 or December 31, 2015.

## Fair Value Investments

### Impairment Analysis

**September 30, 2016**--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 identified a \$1.1 million other-than-temporary impairment for the third quarter in its oil & gas refining & 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 when compared to the total Available-for-sale equity securities.

**December 31, 2015**--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 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.

### Investment Results

The investment results for September 30, 2016 and December 31, 2015 are as follows for available-for-sale equity securities carried at fair value:

September 30, 2016	Amortized Cost	Gross Unrealized Holding		Fair Value
		Gains	Losses	
Available-for-sale equity securities				
Cement industry	\$ 2,690,000	\$ 9,920,000	\$ -	\$ 12,610,000
General building materials industry	4,200,000	4,510,000	-	8,710,000
Oil & gas refining & marketing industry	1,450,000	1,060,000	-	2,510,000
Residential construction industry	930,000	120,000	-	1,050,000
Total available-for-sale equity securities	<u>\$ 9,270,000</u>	<u>\$ 15,610,000</u>	<u>\$ -</u>	<u>\$ 24,880,000</u>
		\$ 15,610,000		
		6,244,000		
		<u>\$ 9,366,000</u>		
December 31, 2015				
Available-for-sale equity securities				
Cement industry	\$ 2,340,000	\$ 7,000,000	\$ -	\$ 9,340,000
General building materials industry	2,950,000	3,580,000	-	6,530,000
Oil & gas refining & marketing industry	1,150,000	3,630,000	-	4,780,000
Residential construction industry	970,000	-	30,000	940,000
Total available-for-sale equity securities	<u>\$ 7,410,000</u>	<u>\$ 14,210,000</u>	<u>\$ 30,000</u>	<u>\$ 21,590,000</u>
		\$ 14,180,000		
		5,672,000		
		<u>\$ 8,508,000</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, 2016</u>	<u>December 31, 2015</u>
Carrying value	\$ 6,609,993	\$ 6,238,697
Ownership percentage	32.04%	32.04%
Cash dividends received	\$ 32,206	\$ 8,583
Undistributed earnings	1,771,213	1,367,711
Difference between carrying amount and the underlying equity in net assets*	(39,663)	(39,663)
	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Equity in earnings	\$ 403,502	\$ 196,473

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

During the three months ended September 30, 2016 and 2015, the Company purchased \$0.3 million and \$0.3 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, 2016 and 2015, the Company purchased \$1.0 million and \$0.8 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, 2016 and 2015.

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 September 30, 2016 or December 31, 2015.

## **(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 September 30, 2016 and 2015:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Service Cost	\$ 240,025	\$ 232,640	\$ 117,162	\$ 142,211
Interest Cost	504,243	476,197	216,376	275,376
Less: Expected return on plan assets	697,783	764,545	-	-
Amortization of prior service cost	25,142	24,932	(803,950)	(590,533)
Recognized net actuarial loss	484,398	274,632	122,848	156,362
Net periodic (benefit) expense	<u>\$ 556,025</u>	<u>\$ 243,856</u>	<u>\$ (347,564)</u>	<u>\$ (16,584)</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 nine months ended September 30, 2016 and 2015:

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Service Cost	\$ 720,075	\$ 703,628	\$ 351,486	\$ 426,633
Interest Cost	1,512,727	1,515,858	649,128	826,128
Less: Expected return on plan assets	2,093,349	2,351,215	-	-
Amortization of prior service cost	75,426	74,442	(2,411,850)	(1,771,599)
Recognized net actuarial loss	1,453,194	788,854	368,544	469,086
Net periodic (benefit) expense	<u>\$ 1,668,073</u>	<u>\$ 731,567</u>	<u>\$ (1,042,692)</u>	<u>\$ (49,752)</u>

As previously disclosed in our financial statements for the year ended December 31, 2015, there are no minimum expected contributions to the plans that Monarch must make. As of September 30, 2016, we have contributed approximately \$1,668,000 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, 2015, Monarch expects expenditures of approximately \$1,155,000 for this plan in 2016. As of September 30, 2016, we have contributed approximately \$686,000 and anticipate contributing an additional \$469,000 to this plan in 2016 for a total of \$1,155,000.

#### **(8) 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, 2016 and 2015:

Reclassification for	2016	2015
Net periodic pension and postretirement costs in:		
Cost of Sales	\$ 45,950	\$ (30,827)
Tax benefit (expense)	(18,480)	12,367
Net of tax	<u>\$ 27,470</u>	<u>\$ (18,460)</u>
Selling, General & Administrative Expenses	\$ 125,612	\$ 165,434
Tax expense	(50,520)	(66,367)
Net of tax	<u>\$ 75,092</u>	<u>\$ 99,067</u>
Unrealized net gains on available-for-sale securities in:		
Gain on sale of equity investments	\$ 7,630	\$ 8,343,407
Tax expense	(4,000)	(3,336,000)
Net of tax	<u>\$ 3,630</u>	<u>\$ 5,007,407</u>
Loss on write-down of equity investments	\$ (1,065,662)	\$ -
Tax benefit	428,000	-
Net of tax	<u>\$ (637,662)</u>	<u>\$ -</u>
Reclassifications, net of tax	<u>\$ (531,470)</u>	<u>\$ 5,088,014</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, 2016 and 2015:



Reclassification for	2016	2015
Net periodic pension and postretirement costs in:		
Cost of Sales	\$ 137,850	\$ (100,588)
Tax benefit (expense)	(55,440)	40,307
Net of tax	<u>\$ 82,410</u>	<u>\$ (60,281)</u>
 Selling, General & Administrative Expenses	 \$ 376,836	 \$ 539,805
Tax expense	(151,560)	(216,307)
Net of tax	<u>\$ 225,276</u>	<u>\$ 323,498</u>
 Unrealized net gains on available-for-sale securities in:		
Gain on sale of equity investments	\$ 9,721	\$ 8,343,407
Tax expense	(4,000)	(3,336,000)
Net of tax	<u>\$ 5,721</u>	<u>\$ 5,007,407</u>
 Loss on write-down of equity investments	 \$ (1,065,662)	 \$ -
Tax benefit	428,000	-
Net of tax	<u>\$ (637,662)</u>	<u>\$ -</u>
 Reclassifications, net of tax	 <u>\$ (324,255)</u>	 <u>\$ 5,270,624</u>

**(9) 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.

**(10) 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 2016, respectively. The weighted average number of shares outstanding was 3,863,139 and 3,865,574 in the third quarter and first nine months of 2015, respectively. The Company has no capital stock equivalents and therefore, does not report diluted earnings per share.

**(11) 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 2012. 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, 2016 or September 30, 2015.