CAMBREX CORP
Form 10-Q
November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the quarterly period ended September 30, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from ___________ to ______________
Commission file number 1-10638

CAMBREX CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	22-2476135
(State or other jurisdiction of incorporation or organization)	(I.R.S.Employer Identification No.)

ONE MEADOWLANDS PLAZA, EAST RUTHERFORD, NEW JERSEY 07073
(Address of principal executive offices)

(201) 804-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x. No o.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer x Non-accelerated filer o (Do not check if a Smaller reporting

o	smaller reporting company)	company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o. No x.

As of October 31, 2011, there were 29,487,588 shares outstanding of the registrant's Common Stock, $.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This document contains "forward-looking statements", including statements regarding expected performance, especially expectations with respect to sales, research and development expenditures, earnings per share, capital expenditures, acquisitions, divestitures, collaborations, or other expansion opportunities. These statements may be identified by the fact that they use words such as "expects," "anticipates," "intends," "estimates," "believes" or similar expressions. A forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations. The factors described in Item 1A of Part I contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2010, captioned "Risk Factors," or otherwise described in the Company's filings with the Securities and Exchange Commission, as well as any cautionary language in the Company's Annual Report on Form 10-K for the period ended December 31, 2010, provide examples of such risks and uncertainties that may cause the Company's actual results to differ materially from the expectations the Company describes in its forward-looking statements, including but not limited to, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and regulations (particularly environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, including the outcome of outstanding litigation disclosed in the Company's public filings, changes in foreign exchange rates, uncollectable receivables, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, and the Company's ability to receive regulatory approvals for its products.

The forward-looking statements are based on the beliefs and assumptions of Company management and the information available to Company management at the time these disclosures were prepared. Although the Company believes the expectations reflected in these statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to update these forward-looking statements, even if the Company's situation changes in the future.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAMBREX CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,710	$ 29,614
Trade receivables, net	31,801	39,025
Inventories, net	65,809	61,408
Prepaid expenses and other current assets	7,081	5,082
Total current assets	134,401	135,129
Property, plant and equipment, net	142,446	150,483
Goodwill	38,015	37,694
Intangible assets, net	4,511	4,687
Investment in partially-owned affiliate	16,810	19,709
Other non-current assets	2,850	4,049
Total assets	$ 339,033	$ 351,751
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 18,372	$ 19,480
Accrued expenses and other current liabilities	36,505	33,503
Total current liabilities	54,877	52,983
Long-term debt	99,000	115,900
Deferred income tax	17,191	17,893
Accrued pension and postretirement benefits	38,739	43,921
Other non-current liabilities	11,077	13,419
Total liabilities	220,884	244,116
Stockholders' equity:		
Common stock, $.10 par value; authorized 100,000,000, issued 31,417,138 and 31,409,638 shares at respective dates	3,141	3,140
Additional paid-in capital	102,051	101,271
Retained earnings	42,219	31,992
Treasury stock, at cost, 1,985,254 and 1,978,533 shares at respective dates	(16,764)	(16,876)
Accumulated other comprehensive loss	(12,498)	(11,892)
Total stockholders' equity	118,149	107,635
Total liabilities and stockholders' equity	$ 339,033	$ 351,751

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES
Consolidated Income Statements
(unaudited - in thousands, except per-share data)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Gross sales	$58,203	$49,356	$187,341	$162,914
Commissions, allowances and rebates	412	492	1,226	1,204
Net sales	57,791	48,864	186,115	161,710
Other	1,364	(1,090)	2,007	374
Net revenues	59,155	47,774	188,122	162,084
Cost of goods sold	41,326	33,664	133,781	115,548
Gross profit	17,829	14,110	54,341	46,536
Operating expenses:				
Selling, general and administrative expenses	9,818	7,879	28,097	24,784
Research and development expenses	2,615	3,080	8,247	7,906
Restructuring expenses	-	1,187	-	1,187
Merger and acquisition expenses	-	711	-	786
Total operating expenses	12,433	12,857	36,344	34,663
Operating profit	5,396	1,253	17,997	11,873
Other expenses/(income):				
Interest expense, net	564	1,233	1,742	3,602
Other expenses/(income), net	14	52	(271)	69
Equity in losses of partially-owned affiliate	497	-	1,164	-
Income/(loss) before income taxes	4,321	(32)	15,362	8,202
Provision for income taxes	1,227	1,252	4,656	4,137
Income/(loss) from continuing operations	3,094	(1,284)	10,706	4,065
(Loss)/income from discontinued operations, net of tax	(333)	(170)	(479)	935
Net income/(loss)	$2,761	$(1,454)	$10,227	$5,000
Basic earnings/(loss) per share of common stock:				
Income/(loss) from continuing operations	$0.10	$(0.04)	$0.36	$0.14
(Loss)/income from discontinued operations, net of tax	$(0.01)	$(0.01)	$(0.01)	$0.03
Net income/(loss)	$0.09	$(0.05)	$0.35	$0.17
Diluted earnings/(loss) per share of common stock:				
Income/(loss) from continuing operations	$0.10	$(0.04)	$0.36	$0.14
(Loss)/income from discontinued operations, net of tax	$(0.01)	$(0.01)	$(0.01)	$0.03
Net income/(loss)	$0.09	$(0.05)	$0.35	$0.17
Weighted average shares outstanding:				
Basic	29,483	29,373	29,450	29,341
Effect of dilutive stock based compensation*	45	-	67	102
Diluted	29,528	29,373	29,517	29,443

*For the three months ended September 30, 2010, the effect of stock options and restricted stock would be anti-dilutive and is therefore, excluded.

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited - in thousands)

	Nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$10,227	$5,000
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	17,321	15,997
Increase in inventory reserve	704	86
Stock based compensation included in net income	1,161	1,493
Deferred income tax provision	(577)	(1,007)
Equity in losses of partially-owned affiliate	1,164	-
Restructuring charges	-	1,071
Other	32	219
Changes in assets and liabilities:		
Trade receivables	7,432	1,836
Inventories	(5,266)	(7,612)
Prepaid expenses and other current assets	(2,051)	(1,137)
Accounts payable and other current liabilities	16	614
Other non-current assets and liabilities	(3,453)	(94)
Discontinued operations:		
Adjustments to reconcile discontinued operations to cash flows	200	(957)
Net cash provided by operating activities	26,910	15,509
Cash flows from investing activities:		
Capital expenditures	(9,376)	(8,572)
Acquisition of business, net of cash	-	(6,897)
Other investing activities	18	(36)
Net cash used in investing activities	(9,358)	(15,505)
Cash flows from financing activities:		
Long-term debt activity (including current portion):		
Borrowings	5,300	29,700
Repayments	(22,200)	(36,100)
Other financing activities	(302)	(50)
Net cash used in financing activities	(17,202)	(6,450)
Effect of exchange rate changes on cash and cash equivalents	(254)	(2,923)
Net increase/(decrease) in cash and cash equivalents	96	(9,369)
Cash and cash equivalents at beginning of period	29,614	52,365
Cash and cash equivalents at end of period	$29,710	$42,996

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(dollars in thousands, except share data)
(Unaudited)

(1) Basis of Presentation

Unless otherwise indicated by the context, "Cambrex" or the "Company" means Cambrex Corporation and subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with generally accepted accounting principles (“GAAP”). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2010.

The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results expected for the full year.

For the three and nine months ended September 30, 2011 the Company recorded expense, net of tax, of $333, and $479, respectively, as discontinued operations, primarily related to expenses for environmental remediation at sites of divested businesses. For the three and nine months ended September 30, 2010, the Company recorded expense of $170 as discontinued operations. For the nine months ended September 30, 2010 the Company recorded a benefit of $1,652 as a result of the expiration of a contingent liability and charges of $547 for environmental remediation related to sites of divested businesses as discontinued operations.

(2) Impact of Recently Issued Accounting Pronouncements

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (“FASB”) issued “Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurements.” This statement requires new disclosures and clarifies some existing disclosure requirements about fair value measurement. Disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The effect of adopting this pronouncement did not have an impact on the Company’s financial position or results of operations.

Revenue Recognition – Milestone Method

In April 2010, the Emerging Issues Task Force issued “Revenue Recognition – Milestone Method.” This issue provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This issue is effective on a prospective basis for milestones achieved in fiscal years beginning after June 15, 2010. The adoption of this standard did not have a material impact on the Company’s financial position or results of operations.

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CAMBREX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except share data)
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(2) Impact of Recently Issued Accounting Pronouncements (continued)

Comprehensive Income

In June 2011, the FASB issued "Comprehensive Income – Presentation of Comprehensive Income." This statement gives companies two options for presenting other comprehensive income ("OCI"), which currently is included as part of the statement of shareholders' equity. An OCI statement can be included within the income statement, which together will make a statement of total comprehensive income. Alternatively, companies can have an OCI statement separate from an income statement, but the two statements will have to appear consecutively within a financial report. This statement is effective for fiscal quarters and years beginning after December 15, 2011. The effect of adopting this statement will not have an impact on the Company's financial position or results of operations.

Testing Goodwill for Impairment

In September 2011, the FASB issued "Intangibles—Goodwill and Other: Testing Goodwill for Impairment" to simplify the goodwill impairment test. The change allows companies to first decide whether they need to do the two-step test by allowing companies to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. A business no longer has to calculate the fair value of a reporting unit unless it believes it's very likely that the unit's fair value is less than the value carried on the balance sheet. This amendment also includes examples of how the amended test should be carried out. This amendment is effective for annual and interim tests performed for fiscal years beginning after December 15, 2011, although early adoption is permitted. The effect of adopting this statement will not have an impact on the Company's financial position or results of operations.

(3) Net Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Net inventories at September 30, 2011 and December 31, 2010 consist of the following:

	September 30, 2011	December 31, 2010
Finished goods	$ 24,274	$ 26,731
Work in process	22,896	17,852
Raw materials	13,901	12,183
Supplies	4,738	4,642
Total	$ 65,809	$ 61,408

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CAMBREX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except share data)
(Unaudited)

(4) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2011, is as follows:

Balance as of January 1, 2011	$37,694
Translation effect	321
Balance as of September 30, 2011	$38,015

Acquired intangible assets, which are amortized, consist of the following:

	As of September 30, 2011			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology-based intangibles	20 years	$ 4,105	$ (309)	$ 3,796
Customer-related intangibles	10 - 15 years	797	(82)	715
		$ 4,902	$ (391)	$ 4,511

	As of December 31, 2010			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology-based intangibles	20 years	$ 4,062	$ (153)	$ 3,909
Customer-related intangibles	10 - 15 years	828	(50)	778
		$ 4,890	$ (203)	$ 4,687

The change in the gross carrying amount is primarily due to the impact of foreign currency.

Amortization expense was $68 and $232 for the three and nine months ended September 30, 2011, respectively. Amortization expense was $69 and $128 for the three and nine months ended September 30, 2010, respectively.

Amortization expense related to current intangible assets is expected to be approximately $270 for 2011 and for each of the next four years.

(5) Investment in Partially-Owned Affiliate

The Company owns an equity stake in Zenara Pharma for which the Company recorded a loss of $497 and $1,164 for the three and nine months ended September 30, 2011, respectively. These amounts include amortization expense of $283 and $853, for the three and nine months ended September 30, 2011, respectively.

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CAMBREX CORPORATION AND SUBSIDIARIES
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(dollars in thousands, except share data)
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(6) Income Taxes

The Company recorded tax expense in continuing operations of $1,227 and $4,656 in the three and nine months ended September 30, 2011, respectively, compared to $1,252 and $4,137 in the three and nine months ended September 30, 2010, respectively. The decrease for the three months ended September 30, 2011 is due primarily to the geographic mix of income. The increase for the nine months ended September 30, 2011 is due primarily to higher pre-tax earnings.

The Company expects to maintain a full valuation allowance against its net domestic, and certain foreign, deferred tax assets, subject to the consideration of all prudent and feasible tax planning strategies, until such time as the Company attains an appropriate level of future profitability and the Company is able to conclude that it is more likely than not that its deferred tax assets are realizable.

In 2009, a subsidiary of the Company was examined by a European tax authority, who challenged the business purpose of the deductibility of certain intercompany transactions from 2003. In the fourth quarter of 2009, the tax authorities notified the Company that they disagreed with the Company's responses to the authority's two formal assessments. In the first quarter of 2010, the Company filed an appeal to litigate the matter. The first court date related to this matter was held in June 2011. The court issued its ruling in favor of the Company in June, however, this ruling only applied to the smaller of the two assessments made by the authorities related to this matter. The Company still believes this dispute to be in the early stages of the judicial process since any ruling reached by any of the courts may be appealed, and as such the final date of resolution and outcome of this matter are uncertain at this time. However, it is possible that factors such as new developments, judgments, or settlements may require the Company to increase its reserve for unrecognized tax benefits by up to $8,500 or decrease its reserve by $5,800, including interest and penalties. If the court rules against the Company in subsequent court proceedings, a payment of between $6,000 and $9,000 including interest and penalties will be due immediately while the case is appealed. The Company has analyzed these issues in accordance with guidance on uncertain tax positions and believes at this time that its reserves are adequate, and intends to vigorously defend itself.

In the next twelve months, the Company does not expect any material changes to its unrecognized tax benefits other than those disclosed above.

Tax years 2007 and forward in the U.S. are open to examination by the IRS. The Company is also subject to examinations in its non-U.S. jurisdictions for 2006 and later years.

The Company is also subject to audits in various states for various years in which it has filed income tax returns. Previous state audits have resulted in immaterial adjustments. Open years for the majority of states where the Company files are 2006 and forward.

CAMBREX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except share data)
(Unaudited)

(7) Derivatives and Hedging Activities

The Company operates internationally and is exposed to fluctuations in foreign exchange rates and interest rates in the normal course of business. The Company considers the use of derivative financial instruments to reduce exposure to market risks resulting from fluctuations in interest rates and foreign exchange rates.

All financial instruments involve market and credit risks. The Company is exposed to credit losses in the event of non-performance by the counterparties to the contracts. While there can be no assurance, the Company does not anticipate non-performance by these counterparties.

Foreign Currency Forward Contracts

The Company enters into forward exchange contracts to hedge forecasted cash flows associated with foreign currency transaction exposures, as deemed appropriate. This hedging strategy mitigates some of the impact of short-term foreign exchange rate movements on the Company's operating results, primarily in Sweden and Italy. The Company's primary market risk relates to exposures to foreign currency exchange rate fluctuations on transactions entered into by these international operations that are denominated primarily in U.S. dollars, Swedish krona, and euros.

The Company's forward exchange contracts substantially offset gains and losses on the transactions being hedged. The forward exchange contracts have varying maturities with none exceeding twelve months.

All forward contracts outstanding at September 30, 2011 have been designated as cash flow hedges and, accordingly, changes in the fair value of these derivatives are not included in earnings but are included in accumulated other comprehensive income/(loss) ("AOCI"). Changes in the fair value of the derivative instruments reported in AOCI will be recorded into earnings as a component of other revenue, as applicable, when the forecasted transaction occurs. The ineffective portion of all hedges is recognized in current-period earnings and is immaterial to the Company's financial results.

The notional amounts of foreign exchange forward contracts were $7,935 and $19,094 at September 30, 2011 and December 31, 2010, respectively.

Included in AOCI is the fair value of the Company's forward exchange contracts which is a loss of $16 and $101 as of September 30, 2011 and December 31, 2010, respectively. These losses are located under the caption "Accrued expenses and other current liabilities" on the balance sheet as of September 30, 2011 and December 31, 2010, respectively.

The Company recognized a pre-tax gain in OCI from foreign exchange contracts of $242 and $85 for the three and nine months ended September 30, 2011, respectively. The Company reclassified a pre-tax gain of $15 and $154 from AOCI into other revenue related to foreign exchange forward contracts for the three and nine months ended September 30, 2011, respectively. Assuming current market conditions continue, the entire amount recorded in AOCI related to foreign exchange forward contracts is expected to be recorded into other revenue within the next 12 months to reflect the fixed prices obtained from the forward contracts.

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(dollars in thousands, except share data)
(Unaudited)

(8) Fair Value Measurements

U.S. GAAP establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from, or corroborated by, observable market data through correlation; Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2011 and December 31, 2010:

		Fair Value Measurements at September 30, 2011 using:		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign currency forwards, liabilities	$(16)	$-	$(16)	$ -
Total	$(16)	$-	$(16)	$ -

		Fair Value Measurements at December 31, 2010 using:		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign currency forwards, liabilities	$(101)	$-	$(101)	$ -
Total	$(101)	$-	$(101)	$ -

The Company's derivative assets and liabilities include foreign exchange forward contracts that are measured at fair value using observable market inputs such as forward rates, the Company's credit risk and its counterparties' credit risks. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. Based on the Company's continued ability to enter into forward contracts, the Company considers the markets for its fair value instruments to be active.

As of September 30, 2011, there had not been any significant impact to the fair value of the Company's derivative liabilities due to its own credit risk. Similarly, there had not been any significant adverse impact to the Company's derivative assets based on the Company's evaluation of its counterparties' credit risks.

The Company's financial instruments also include cash and cash equivalents, accounts receivables, accounts payables and accrued liabilities. The carrying amount of these instruments approximates fair value because of their short-term nature.

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CAMBREX CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
(dollars in thousands, except share data)
(Unaudited)

(9) Restructuring Expenses

During the third quarter 2010 the Company finalized a plan to restructure its operations at a manufacturing site which resulted in a reduction in workforce of 32 employees. The plan included certain one-time benefits for terminated employees, all of which will be paid in cash.

The following table reflects the activity related to the restructuring reserves through September 30, 2011:

		2011 Activity			
	December 31, 2010 Reserve Balance	Expense	Cash Payments	Translation Effect	September 30, 2011 Reserve Balance
One-time employee benefits	886	-	(535)	11	362