

CAMBREX CORP  
Form 10-Q  
November 05, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

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

for the quarterly period ended September 30, 2012

OR  
 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  
(State or other jurisdiction of incorporation or  
organization)

22-2476135  
(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  No

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  No

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  Non-accelerated filer  Smaller reporting company

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(Do not check if a smaller reporting company)

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

As of October 25, 2012, there were 29,863,898 shares outstanding of the registrant's Common Stock, \$.10 par value.

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## CAMBREX CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This document contains and incorporates by reference forward-looking statements including statements regarding expected performance, especially the Company's estimate relating to the amount and timing of required capital expenditures under its new supply agreement, the Company's belief that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company, as well as other statements relating to expectations with respect to sales, research and development expenditures, earnings per share, capital expenditures, the outcome of pending litigation (including environmental proceedings and remediation investigations) and related estimates of potential liability, acquisitions, divestitures, collaborations or other expansion opportunities. These statements may be identified by the fact that they use words such as "may," "will," "could," "should," "would," "expect," "anticipate," "intend," "estimate," "believe" or similar expressions. 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, 2011, 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, 2011, 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, uncollectible 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, as well as risks relating to the Company's new supply agreement including that the Company will expend significant resources to expand its manufacturing facilities without any assurance that the new agreement will generate any revenue beyond revenue that would be earned under termination provisions within the agreement, that the customer's product candidate will be successful in Phase 3 trials or obtain the necessary regulatory approvals to commercialize the product candidate, that the customer's Phase 3 program will not be terminated early, that anticipated quantities will not be meaningfully reduced, that the planned Phase 3 and pre-launch activities will proceed on the timeline anticipated, if at all, that the Company's expansion will proceed on the anticipated timeline without disruption to existing customers or our new customer and without disruption to the Company's and its customers' ability to meet key product delivery milestones.

The forward-looking statements are based on the beliefs and assumptions of Company management and the information available to Company management as of the date of this report. The Company cautions investors not to place significant reliance on expectations regarding future results, levels of activity, performance, achievements or other forward-looking statements. The information contained in this Quarterly Report on Form 10-Q is provided by the Company as of the date hereof, and, unless required by law, the Company does not undertake and specifically disclaims any obligation to update these forward-looking statements contained in this Quarterly Report on Form 10-Q as a result of new information, future events or otherwise.

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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, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$33,517	\$31,921
Trade receivables, net	35,561	36,510
Inventories, net	69,465	62,095
Prepaid expenses and other current assets	6,666	6,083
Total current assets	145,209	136,609
Property, plant and equipment, net	138,794	139,628
Goodwill	36,711	36,731
Intangible assets, net	4,071	4,261
Investments in and advances to partially-owned affiliates	15,415	15,090
Other non-current assets	3,008	3,425
Total assets	\$343,208	\$335,744
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$19,159	\$21,200
Deferred revenue	11,966	425
Accrued expenses and other current liabilities	44,117	37,508
Total current liabilities	75,242	59,133
Long-term debt	68,000	98,000
Deferred income tax	15,741	16,243
Accrued pension benefits	50,613	52,089
Other non-current liabilities	10,345	9,938
Total liabilities	219,941	235,403
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued 31,647,780 and 31,441,138 shares at respective dates	3,164	3,143
Additional paid-in capital	103,717	101,646
Retained earnings	61,615	42,960
Treasury stock, at cost, 1,836,809 and 1,866,258 shares at respective dates	(15,571 )	(15,821 )
Accumulated other comprehensive loss	(29,658 )	(31,587 )
Total stockholders' equity	123,267	100,341
Total liabilities and stockholders' equity	\$343,208	\$335,744

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,		Nine months ended September 30,	
	2012	2011	2012	2011
Gross sales	\$59,841	\$58,203	\$207,542	\$187,341
Commissions, allowances and rebates	456	412	1,772	1,226
Net sales	59,385	57,791	205,770	186,115
Other	(175 )	1,364	801	2,007
Net revenues	59,210	59,155	206,571	188,122
Cost of goods sold	40,679	41,326	137,167	133,781
Gross profit	18,531	17,829	69,404	54,341
Operating expenses:				
Selling, general and administrative expenses	11,910	9,818	33,829	28,097
Research and development expenses	2,347	2,615	7,297	8,247
Total operating expenses	14,257	12,433	41,126	36,344
Operating profit	4,274	5,396	28,278	17,997
Other expenses/(income):				
Interest expense, net	576	564	1,905	1,742
Other expenses/(income), net	72	14	96	(271 )
Equity in losses of partially-owned affiliates	630	497	1,221	1,164
Income before income taxes	2,996	4,321	25,056	15,362
Provision for income taxes	975	1,227	6,069	4,656
Income from continuing operations	2,021	3,094	18,987	10,706
Loss from discontinued operations, net of tax	(332 )	(333 )	(332 )	(479 )
Net income	\$1,689	\$2,761	\$18,655	\$10,227
Basic earnings/(loss) per share of common stock:				
Income from continuing operations	\$0.07	\$0.10	\$0.64	\$0.36
Loss from discontinued operations, net of tax	\$(0.01 )	\$(0.01 )	\$(0.01 )	\$(0.01 )
Net income	\$0.06	\$0.09	\$0.63	\$0.35
Diluted earnings/(loss) per share of common stock:				

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Income from continuing operations	\$0.07	\$0.10	\$0.63	\$0.36
Loss from discontinued operations, net of tax	\$(0.01 )	\$(0.01 )	\$(0.01 )	\$(0.01 )
Net income	\$0.06	\$0.09	\$0.62	\$0.35
Weighted average shares outstanding:				
Basic	29,711	29,483	29,645	29,450
Effect of dilutive stock based compensation	876	45	495	67
Diluted	30,587	29,528	30,140	29,517

See accompanying notes to unaudited consolidated financial statements.



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## CAMBREX CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income/(Loss)

(unaudited – in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	\$1,689	\$2,761	\$18,655	\$10,227
Other comprehensive income/(loss):				
Foreign currency translation adjustments	5,293	(14,291 )	2,336	(1,472 )
Foreign currency forward contracts, before tax	(96 )	242	(380 )	85
Interest rate swap	(216 )	-	(1,036 )	-
Pension plan amortization of net actuarial loss and prior service cost, before tax	313	278	936	835
Income tax benefit/(expense) related to items of other comprehensive income/(loss)	13	(79 )	73	(54 )
Comprehensive income/(loss)	\$6,996	\$(11,089 )	\$20,584	\$9,621

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,	
	2012	2011
Cash flows from operating activities:		
Net income	\$18,655	\$10,227
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	16,134	17,321
Increase in inventory reserve	2,430	704
Stock based compensation included in net income	1,270	1,161
Deferred income tax provision	(1,236 )	(577 )
Equity in losses of partially-owned affiliates	1,221	1,164
Other	363	278
Changes in assets and liabilities:		
Trade receivables	900	7,432
Inventories	(8,858 )	(5,266 )
Prepaid expenses and other current assets	(763 )	(2,461 )
Accounts payable and other current liabilities	787	(148 )
Deferred revenue	11,541	164
Other non-current assets and liabilities	(633 )	(2,825 )
Discontinued operations:		
Net cash used in discontinued operations	(1,469 )	(264 )
Net cash provided by operating activities	40,342	26,910
Cash flows from investing activities:		
Capital expenditures	(9,062 )	(9,376 )
Advances to partially-owned affiliates	(1,321 )	-
Other	11	18
Net cash used in investing activities	(10,372 )	(9,358 )
Cash flows from financing activities:		
Long-term debt activity:		
Borrowings	-	5,300
Repayments	(30,000 )	(22,200 )
Proceeds from stock options exercised	1,072	33
Other	(21 )	(335 )
Net cash used in financing activities	(28,949 )	(17,202 )
Effect of exchange rate changes on cash and cash equivalents	575	(254 )
Net increase in cash and cash equivalents	1,596	96
Cash and cash equivalents at beginning of period	31,921	29,614
Cash and cash equivalents at end of period	\$33,517	\$29,710

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(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, 2011.

The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results expected for the full year.

For all periods presented, discontinued operations primarily relate to expenses for environmental remediation at sites of divested businesses.

(2) Impact of Recently Issued Accounting Pronouncements

Fair Value Measurement

In May 2011, the FASB issued "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements" that established a framework for how to measure fair value and the disclosures required about fair value measurements. The updated guidance is largely consistent with fair value measurement principles that existed prior to the update and became effective on January 1, 2012. The effect of adopting this updated guidance did not have a material impact on the Company's financial position or results of operations.

Comprehensive Income

In June 2011, the FASB issued "Comprehensive Income – Presentation of Comprehensive Income." This amendment gives companies two options for presenting other comprehensive income ("OCI"). 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 amendment is effective for fiscal quarters and years beginning after December 15, 2011. The effect of adopting this amendment did 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.



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## CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)  
(in thousands, except share data)  
(Unaudited)

## (2) Impact of Recently Issued Accounting Pronouncements (continued)

A business no longer has to calculate the fair value of a reporting unit unless it believes it is very likely that the reporting unit's fair value is less than the value carried on the balance sheet. This amendment is effective for annual and interim tests performed for fiscal years beginning after December 15, 2011. The effect of adopting this statement did not have an impact on the Company's financial position or results of operations.

## (3) Net Inventories

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

Net inventories at September 30, 2012 and December 31, 2011 consist of the following:

	September 30, 2012	December 31, 2011
Finished goods	\$ 26,960	\$ 26,885
Work in process	24,147	19,190
Raw materials	13,440	11,261
Supplies	4,918	4,759
Total	\$ 69,465	\$ 62,095