

CAMBREX CORP
Form 10-Q
August 02, 2018

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 June 30, 2018

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 22-2476135
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, there were 33,258,256 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 or tables regarding expected performance. These and other forward-looking statements may be identified by the fact that they use words such as “guidance,” “expects,” “anticipates,” “intends,” “estimates,” “believes” or similar expressions. Any 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 of the Company’s Annual Report on Form 10-K for the period ended December 31, 2017 captioned “Risk Factors,” or otherwise described in the Company’s filings with the SEC 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, the possibility that conditions to closing the Halo Pharma transaction could not be met or that the benefits from the acquisition may not be as anticipated, customer and product concentration, the Company’s ability to win new customer contracts and renew existing contracts on favorable terms, significant declines in sales of products to our customers, pharmaceutical outsourcing trends, competitive pricing or product developments, market acceptance and adoption rate of its customers’ products, government legislation and regulations (including those pertaining to environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, including the outcome of outstanding litigation, environmental matters, changes in foreign exchange rates, uncollectible receivables, the timing and/or volume of orders or shipments and the Company’s ability to meet its production plan and customer delivery schedules, expected timing of completion of capacity expansions, our ability to successfully integrate acquired businesses, loss on disposition of assets, cancellations or delays in renewal of contracts, lack of suitable raw materials, the Company’s ability to receive regulatory approvals for its products, continued demand in the U.S. for late stage clinical products and the successful outcome of the Company’s investment in new products.

For further details and a discussion of these and other risks and uncertainties, investors are encouraged to review the Cambrex Annual Report on Form 10-K for the fiscal year ended December 31, 2017, including the Forward-Looking Statement sections therein, and other filings with the SEC. The Company cautions investors and potential investors not to place undue reliance on the forward-looking statements contained in this Quarterly Report on Form 10-Q and to give careful consideration to the risks and uncertainties listed above and contained in the Company’s SEC filings. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date of this document, and the Company undertakes no obligation to update or revise any of these statements.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 171,348	\$ 183,284
Trade receivables, net	100,224	75,144
Contract assets	107,083	-
Other receivables	15,417	20,891
Inventories, net	99,562	138,542
Prepaid expenses and other current assets	10,589	4,217
Total current assets	504,223	422,078
Property, plant and equipment, net	266,075	254,299
Goodwill	42,864	43,626
Intangible assets, net	12,753	13,868
Deferred income taxes	1,448	3,198
Other non-current assets	3,532	3,496
Total assets	\$ 830,895	\$ 740,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 51,596	\$ 35,017
Contract liabilities, current	8,153	4,707
Taxes payable	3,388	43
Accrued expenses and other current liabilities	33,304	42,774
Total current liabilities	96,441	82,541
Contract liabilities, non-current	39,000	39,000
Deferred income taxes	9,377	7,806
Accrued pension benefits	38,444	41,141
Other non-current liabilities	24,306	25,213
Total liabilities	207,568	195,701
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued		
34,477,144 and 34,270,975 shares at respective dates	3,448	3,427
Additional paid-in capital	172,480	165,979
Retained earnings	510,522	429,826
Treasury stock, at cost, 1,273,888 and 1,424,153 shares at respective dates	(10,860)	(12,140)

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Accumulated other comprehensive loss	(52,263)	(42,228)
Total stockholders' equity	623,327	544,864
Total liabilities and stockholders' equity	\$ 830,895	\$ 740,565

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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Gross sales	\$ 147,214	\$ 134,487	\$ 286,344	\$ 238,198
Commissions, allowances and rebates	192	649	401	1,243
Net sales	147,022	133,838	285,943	236,955
Other revenues, net	5,024	716	7,200	2,605
Net revenue	152,046	134,554	293,143	239,560
Cost of goods sold	87,254	76,995	177,496	135,126
Gross profit	64,792	57,559	115,647	104,434
Operating expenses:				
Selling, general and administrative expenses	16,007	18,120	32,862	33,511
Research and development expenses	4,133	4,467	7,752	8,357
Total operating expenses	20,140	22,587	40,614	41,868
Operating profit	44,652	34,972	75,033	62,566
Other expenses/(income):				
Interest expense, net	17	388	99	654
Unrealized gain on investment in equity securities	(5,146)	-	(5,146)	-
Other expenses, net	181	286	445	687
Income before income taxes	49,600	34,298	79,635	61,225
Provision for income taxes	8,748	9,174	14,534	14,986
Income from continuing operations	40,852	25,124	65,101	46,239
Loss from discontinued operations, net of tax	(433)	(94)	(624)	(1,344)
Net income	\$ 40,419	\$ 25,030	\$ 64,477	\$ 44,895
Basic earnings/(loss) per share of common stock:				
Income from continuing operations	\$ 1.23	\$ 0.77	\$ 1.97	\$ 1.42
Loss from discontinued operations, net of tax	\$(0.01)	\$(0.00)	\$(0.02)	\$(0.04)
Net income	\$ 1.22	\$ 0.77	\$ 1.95	\$ 1.38
Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	\$ 1.21	\$ 0.75	\$ 1.94	\$ 1.38
Loss from discontinued operations, net of tax	\$(0.01)	\$(0.00)	\$(0.02)	\$(0.04)
Net income	\$ 1.20	\$ 0.75	\$ 1.92	\$ 1.34
Weighted average shares outstanding:				
Basic	33,085	32,629	32,990	32,542
Effect of dilutive stock based compensation	557	840	628	874
Diluted	33,642	33,469	33,618	33,416

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited – in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$40,419	\$25,030	\$64,477	\$44,895
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(13,465)	10,279	(10,536)	12,747
Pension plan amortization of net actuarial loss and prior service cost/credit, net of tax of \$69, \$117, \$177 and \$232 at respective dates	206	243	501	487
Comprehensive income	\$27,160	\$35,552	\$54,442	\$58,129

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited – in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$64,477	\$44,895
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	15,019	14,827
Non-cash deferred revenue	(1,114)	(4,115)
Increase in inventory reserve	4,202	2,318
Unrealized gain on investment in equity securities	(5,146)	-
Unrealized gain on foreign currency contracts	(1,724)	(1,069)
Stock based compensation	3,203	4,033
Deferred income tax provision	3,729	1,969
Other	(76)	(146)
Changes in assets and liabilities:		
Account receivables	(26,417)	15,047
Contract assets	(56,245)	-
Inventories	(1,033)	(31,165)
Prepaid expenses and other current assets	6,594	(1,308)
Accounts payable and other current liabilities	10,197	(13,180)
Contract liabilities, current	3,017	3,298
Other non-current assets and liabilities	(1,549)	563
Discontinued operations:		
Non-current liabilities	799	2,300
Net cash used in discontinued operations	(431)	(1,190)
Net cash provided by operating activities	17,502	37,077
Cash flows from investing activities:		
Capital expenditures	(32,733)	(22,862)
Net cash used in investing activities	(32,733)	(22,862)
Cash flows from financing activities:		
Proceeds from stock options exercised	4,599	2,973
Net cash provided by financing activities	4,599	2,973
Effect of exchange rate changes on cash and cash equivalents	(1,304)	2,848
Net (decrease)/increase in cash and cash equivalents	(11,936)	20,036
Cash and cash equivalents at beginning of period	183,284	74,141
Cash and cash equivalents at end of period	\$171,348	\$94,177

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 U.S. generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2017.

The results of operations of any interim period are not necessarily indicative of the results expected for the full year.

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation at sites of divested businesses.

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

(2)Impact of Recently Issued Accounting Pronouncements

The following accounting pronouncements became effective for the Company January 1, 2018:

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 which introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the new accounting standard ASC Topic 606, Revenue from Contracts with Customers and all the related amendments ("new revenue standard") to all contracts not completed as of January 1, 2018 using the modified retrospective method. The cumulative effect of initially applying the new revenue standard was \$16,219 and has been recorded as an adjustment to increase the opening balance of retained earnings. The cumulative effect adjustment relates primarily to the recognition of revenue and costs for contracts that transfer promised goods or services over time. Gross sales, cost of goods sold, and tax expense of \$51,896, \$31,347, and \$4,330 respectively, were recorded as part of the cumulative effect adjustment. The comparative information has not been restated and is reported in accordance with accounting standard Topic 605, which was in effect for those periods.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

The adoption of the new revenue standard impacted the consolidated financial statements as follows:

Income Statement

	For the Three Months		
	Ended June 30, 2018		
			Amount
			Without
	As	Effect	Adoption of
	Reported	of	ASC 606
	Change		
Gross sales	\$ 147,214	\$ 18,988	\$ 128,226
Net revenue	152,046	18,988	133,058
Cost of goods sold	87,254	4,020	83,234
Gross profit	64,792	14,968	49,824
Operating profit	44,652	14,968	29,684
Provision for income taxes	8,748	3,463	5,285
Income from continuing operations	40,852	11,505	29,347
Net income	40,419	11,505	28,914
Diluted earnings per share from			
continuing operations	1.21	0.34	0.87

For the Six Months

Ended June 30, 2018

Amount

Without

As	Effect	Adoption of
Reported	of	ASC 606
Change		

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Gross sales	\$286,344	\$56,268	\$230,076
Net revenue	293,143	56,268	236,875
Cost of goods sold	177,496	24,719	152,777
Gross profit	115,647	31,549	84,098
Operating profit	75,033	31,549	43,484
Provision for income taxes	14,534	6,634	7,900
Income from continuing operations	65,101	24,915	40,186
Net income	64,477	24,915	39,562
Diluted earnings per share from			
continuing operations	1.94	0.74	1.20

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Balance Sheet

	June 30, 2018		
	Balances		
	Without		
	As	Effect of	Adoption of
	Reported	Change	ASC 606
Current Assets			
Contract assets	\$ 107,083	\$ 107,083	\$ -
Inventory	99,562	(55,129)	154,691
Current Liabilities			
Taxes payable	3,388	10,964	(7,576)
Stockholders' Equity			
Retained earnings	510,522	41,134	469,388

Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

In March 2017, the FASB issued ASU 2017-07 which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined pension and other postretirement plans. The ASU requires entities to disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if such subtotal is presented. This standard became effective for the Company on January 1, 2018. For the three and six months ended June 30, 2018, the Company recorded \$171 and \$482, respectively, to "Other expenses, net" which formerly would have been recorded as "Selling, general and administrative expenses" or "Cost of goods sold." To conform to the current year presentation, for the three and six months ended June 30, 2017 the Company reclassified \$360 and \$723, respectively, from "Selling, general and administrative expenses" and \$57 and \$107, respectively, from "Cost of goods sold" to "Other expenses, net."

Scope of Modification Accounting, Stock Based Compensation

In May 2017, the FASB issued ASU 2017-09 which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the

accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. The amendment became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15 which provides guidance on the presentation and classification in the statement of cash flows for specific cash receipt and payment transactions, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees. The standard became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

The following recently issued accounting pronouncements will become effective for the Company in future periods:

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02 to address the tax effects of the Tax Cuts & Jobs Act ("TCJA") on amounts that were initially recognized directly in AOCI. ASU 2018-02 allows an entity to elect a one-time reclassification from AOCI to retained earnings of stranded tax effects due to the enactment of TCJA, equal to the difference between the amount initially charged or credited directly to AOCI at the previously enacted U.S. federal corporate income tax rate and the amount that would have been charged or credited directly to AOCI by using the newly enacted tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the provisions of ASU 2018-02 and will determine in a later period if the reclassification from AOCI to retained earnings addressed in the ASU will be elected.

Effects of the Tax Cuts and Jobs Act

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB No. 118") which allowed SEC registrants to record provisional amounts for the year ended December 31, 2017 due to the complexities involved in accounting for the

enactment of TCJA. The Company recognized the estimated income tax effects of TCJA in its 2017 Consolidated Financial Statements in accordance with SAB No. 118. Refer to Note 6 for further information regarding the provisional amounts recorded by the Company as of December 31, 2017.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07 which aligns the accounting for share-based payment awards issued to nonemployees with those issued to employees. Under the new guidance, the nonemployee awards will be measured on the grant date and compensation costs will be recognized when achievement of the performance condition is probable. This new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms greater than twelve months. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. At this time, the Company has no significant financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. Several updates have been issued in 2018 that provide clarification on a number of specific issues and reporting requirements. The Company is currently evaluating the new guidance and does not expect the adjustment will be material to the Company, assuming there is not an increase in lease activity.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 which simplifies the goodwill impairment test by eliminating Step 2 in the determination on whether goodwill should be considered impaired. Instead, an impairment charge should equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard also makes certain targeted improvements to simplify the application of the hedge accounting guidance. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(3) Revenue

In accordance with ASC 606, the Company disaggregates its revenue from customers with contracts by revenue streams. The Company's revenue streams are presented in the following table:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Single-use products	\$75,312	\$147,213
Multi-use products	66,594	129,273
Service revenue	5,308	9,858
Total gross sales	\$147,214	\$286,344

Revenue is recognized when control over a product or service is transferred to a customer. Revenue is measured as the amount of consideration expected in exchange for transferring goods or providing services.

Sales terms to certain customers include rebates if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and returns at the time of sale based on the terms of agreements with customers and historical experience and estimated orders. The Company recognizes revenue net of these estimated costs which are classified as allowances and rebates.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. The Company does not have any unsatisfied performance obligations for contracts greater than one year. The costs incurred to obtain or fulfill a contract are not material.

For variable consideration arrangements where the transaction price fluctuates based on quantity, the most likely estimated quantity is assumed using forecasts provided by the customer.

Single-use products

In most single-use product sales, a quantity is ordered and manufactured according to the customer's specifications and typically only one performance obligation is included. The Company also manufactures early phase product that can be included in a contract with services. These services are distinct and separated from the product performance obligations and are shown as a service revenue stream. The products are manufactured exclusively for a specific customer and have no alternative use. Under these customer agreements, the Company is entitled to consideration for progress to date that includes an element of profit margin. Revenues related to this product stream are recognized over time utilizing a measure of progress toward satisfaction of the performance obligations. The Company measures

progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. The raw materials are excluded from this measurement due to the high value and inclusion in the early stages of the project that would otherwise overstate progress to date.

Multi-use products

The Company's multi-use product sales can be sold to multiple customers and have an alternative use. Both the transaction sales price and shipping terms are agreed upon in the contract. For these products, all revenue is recognized at a point in time, generally when title to products and risk of loss is transferred to the customers based upon shipping terms. These arrangements typically include only one performance obligation.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Service revenue

The service revenue stream represents services provided to a customer to assist with early stages of the regulatory approval process. The customer owns the drug details and process. The Company works with its customers to develop, validate and document the production process in order to comply with the regulatory approval process. These custom development projects could have one or more performance obligations with no alternative use. The contracts are structured to ensure the Company is paid for in-process work, including a profit margin. Revenues related to this stream are recognized over time by allocating to each performance obligation the best estimate of the standalone selling price of each service. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. Standalone selling prices are generally based on the prices charged to customers or based on an expected cost-plus margin.

Contract balances

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contracts assets (unbilled receivables), and contract liabilities (customer advances and deferred revenue). For each reporting period presented, the Company reports contract balances in a net contract asset or liability position on a contract-by-contract basis. Contract assets are recorded when the right to consideration is conditioned on something other than the passage of time. When an entity's right to consideration is unconditional, the receivable is recorded within Trade Receivables on the balance sheet. Contract liabilities represent advance payments from customers, and deferred revenue. Contract assets will convert to trade receivables or cash and current contract liabilities will convert into revenue within a one-year period.

Payment terms can vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, payment prior to satisfaction of a performance obligation can be required, and results in recording a contract liability.

The following table details the significant changes in contract assets during the six months ended June 30, 2018:

	Contract
	Assets
Balance as of January 1, 2018	\$51,896
Revenue recognized from performance obligations	
satisfied	145,820
Transferred to trade receivables	(89,551)
Currency impact	(1,082)
Balance as of June 30, 2018	\$107,083

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

The Company recognized in revenue \$1,114 in the six months ended June 30, 2018 for which the contract liability was recorded in a prior period.

(4) Net Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Net inventories consist of the following:

	June 30, 2018	December 31, 2017
Finished goods	\$ 14,981	\$ 41,521
Work in process	36,661	47,386
Raw materials	40,667	42,491
Supplies	7,253	7,144
Total	\$99,562	\$ 138,542

(5) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2018, is as follows:

Balance as of December 31, 2017	\$43,626
Translation effect	(762)
Balance as of June 30, 2018	\$42,864

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

Amortization Period	As of June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

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Internal-use software	3 - 7 years	\$7,036	\$ (2,358) \$4,678
Technology-based intangibles	20 years	3,544	(1,462) 2,082
Customer-related intangibles	10 - 15 years	7,588	(1,595) 5,993
		\$18,168	\$ (5,415) \$ 12,753

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(Unaudited)

		As of December 31, 2017		
		Gross		Net
	Amortization	Carrying	Accumulated	Carrying
	Period	Amount	Amortization	Amount
Internal-use software	3 - 7 years	\$7,074	\$ (1,810)	\$ 5,264
Technology-based intangibles	20 years	3,646	(1,413)	2,233
Customer-related intangibles	10 - 15 years	7,608	(1,237)	6,371
		\$18,328	\$ (4,460)	\$ 13,868

The change in the gross carrying amount is due to the impact of foreign currency translation and additions.

Amortization expense was \$510 and \$1,023 for the three and six months ended June 30, 2018, respectively. Amortization expense was \$500 and \$898 for the three and six months ended June 30, 2017, respectively.

Amortization expense related to intangible assets is expected to be approximately \$2,038 for 2018, \$2,031 for 2019, \$2,014 for 2020, \$2,008 for 2021, and \$1,588 for 2022.

(6) Income Taxes

Income tax expense from continuing operations for the three and six months ended June 30, 2018 was \$8,748 and \$14,534, respectively, compared to \$9,174 and \$14,986 for the three and six months ended June 30, 2017, respectively. The effective tax rate for the three and six months ended June 30, 2018 was 17.6% and 18.3%, respectively, compared to 26.7% and 24.5% for the three and six months ended June 30, 2017, respectively. Excluding the favorable impact of immediately recognizing certain effects of share-based compensation, the effective tax rate would have been 20.1% and 19.9% for the three and six months ended June 30, 2018.

Under SAB No. 118, the Company's evaluation of the TCJA toll charge on accumulated foreign earnings is not complete and the taxes payable of \$2,105 recorded at December 31, 2017 is provisional and remains unchanged. The Company has not obtained, prepared and analyzed the information necessary to finalize its computations and accounting for the toll charge. In future periods within the one year measurement period, the Company will disclose when the accounting for the income tax effects of TCJA has been completed.

Cambrex is including tax on global intangible low-taxed income ("GILTI") as a component of current tax expense in its estimated annual effective tax rate. The Company is considering whether to elect an accounting policy to treat GILTI inclusions as a period cost in each year incurred, or to recognize deferred taxes for expected future GILTI inclusions, therefore this accounting policy election is incomplete under SAB No. 118.

(7) Derivatives

The Company operates internationally and is exposed to fluctuations in foreign exchange rates and interest rates in the normal course of business. The Company, from time to time, uses derivatives to reduce exposure to market risks resulting from fluctuations in interest rates and foreign exchange rates.

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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 periodically enters into foreign currency forward contracts to protect against currency fluctuations of forecasted cash flows and existing balance sheet exposures at its foreign operations, as deemed appropriate. The Company may or may not elect to designate certain forward contracts for hedge accounting treatment.

For derivatives that are not designated for hedge accounting treatment, changes in the fair value are immediately recognized in earnings. This treatment has the potential to increase volatility of the Company's earnings.

None of the foreign currency forward contracts entered into during the six months ended June 30, 2018 and 2017 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were \$70,975 and \$32,781 at June 30, 2018 and December 31, 2017, respectively. The Company does not hold or purchase any foreign currency forward contracts for trading or speculative purposes and no contractual term is greater than twelve months.

The fair value of the Company's foreign exchange forward contracts outstanding was a gain of \$1,724 and \$83 at June 30, 2018 and December 31, 2017, respectively. Losses are recorded in "Accrued expenses and other current liabilities" and gains are recorded in "Prepaid expenses and other current assets" on the balance sheet and "Other revenues, net" on the income statement.

(8) Fair Value Measurements

Accounting standards establish 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 table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of June 30, 2018 and December 31, 2017:

Fair Value - Level 2

June 30, December 31,

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	2018	2017
Foreign currency forwards, assets	\$ 1,724	\$ 83
Investment in equity securities, assets	5,146	-
	\$ 6,870	\$ 83

The Company's foreign currency forward contracts 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 the

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Company's continued ability to enter into forward contracts, the Company considers the markets for its fair value instruments to be active.

During the second quarter of 2018, the Company acquired a 19.9% equity investment in a European company ("Investee"). The Investee completed an initial public offering on a foreign exchange late in the quarter, which reduced the Company's ownership share to 16.3%. The Company's investment is subject to a one-year prohibition on selling the shares. The Company has one seat on the Board of Directors of the investee and concluded it is able to exercise significant influence and that equity accounting would be appropriate. In accordance with ASC 825, the Company has elected to record this investment at fair value. The Company selected an appropriate valuation methodology to compute a discount for the lack of marketability to be applied to the closing market price of the shares as of June 30, 2018. The fair value of the Company's shares increased by \$5,146 at June 30, 2018 resulting in an unrealized gain that was recorded as "Unrealized gain on investment in equity securities" on the income statement. Since the shares owned by the Company are substantially in excess of the daily trade volumes of the stock, it could be difficult to sell the shares in a timely manner when the restrictions lapse and it is possible the ultimate value to be realized by the Company could be significantly less upon a sale of the securities.

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

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(9) Accumulated Other Comprehensive Income/(Loss)

The following tables provide the changes in AOCI by component (pension, net of tax) for the three and six months ended June 30, 2018 and 2017:

	Foreign		
	Currency		
	Translation	Pension	
	Adjustments	Plans	Total
Balance as of March 31, 2018	\$ (9,111)	\$(29,893)	\$(39,004)
Other comprehensive loss before			
reclassifications	(13,465)	-	(13,465)
Amounts reclassified from accumulated other			
comprehensive loss	-	206	206
Net current-period other comprehensive (loss)/income	(13,465)	206	(13,259)
Balance as of June 30, 2018	\$ (22,576)	\$(29,687)	\$(52,263)

	Foreign		
	Currency		
	Translation	Pension	
	Adjustments	Plans	Total
Balance as of March 31, 2017	\$ (31,822)	\$(30,986)	\$(62,808)
Other comprehensive income before			
reclassifications	10,279	-	10,279
Amounts reclassified from accumulated other			
comprehensive loss	-	243	243
Net current-period other comprehensive income	10,279	243	10,522
Balance as of June 30, 2017	\$ (21,543)	\$(30,743)	\$(52,286)

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	Foreign		
	Currency		
	Translation	Pension	
	Adjustments	Plans	Total
Balance as of December 31, 2017	\$ (12,040)	\$ (30,188)	\$ (42,228)
Other comprehensive loss before			
reclassifications	(10,536)	-	(10,536)
Amounts reclassified from accumulated other			
comprehensive loss	-	501	501
Net current-period other comprehensive (loss)/income	(10,536)	501	(10,035)
Balance as of June 30, 2018	\$ (22,576)	\$ (29,687)	\$ (52,263)
	Foreign		
	Currency		
	Translation	Pension	
	Adjustments	Plans	Total
Balance as of December 31, 2016	\$ (34,290)	\$ (31,230)	\$ (65,520)
Other comprehensive income before			
reclassifications	12,747	-	12,747
Amounts reclassified from accumulated other			
comprehensive loss	-	487	487
Net current-period other comprehensive income	12,747	487	13,234
Balance as of June 30, 2017	\$ (21,543)	\$ (30,743)	\$ (52,286)

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The following tables provide the reclassifications from AOCI by component for the three and six months ended June 30, 2018 and 2017:

Details about AOCI Components	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Amortization of defined benefit pension items:		
Actuarial losses	\$ (276)	\$ (680)
Prior service credit	1	2
Total before tax	(275)	(678)
Tax benefit	69	177
Net of tax	\$ (206)	\$ (501)
Total reclassification for the period	\$ (206)	\$ (501)

Details about AOCI Components	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Amortization of defined benefit pension items:		
Actuarial losses	\$ (347)	\$ (693)
Prior service costs	(13)	(26)
Total before tax	(360)	(719)
Tax benefit	117	232
Net of tax	\$ (243)	\$ (487)
Total reclassification for the period	\$ (243)	\$ (487)

The Company recognizes all components of net periodic benefit cost except service costs in “Other expenses, net” in its income statement. Service costs are recognized in “Selling, general and administrative expenses” and “Cost of goods sold” in its income statement depending on the functional area of the underlying employees included in the plan.

(10) Stock Based Compensation

The Company recognizes compensation costs for stock options awarded to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for the stock options granted to employees during the three and six

months ended June 30, 2018 was \$24.54. The weighted-average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2017 were \$18.37 and \$20.14, respectively.

For the three months ended June 30, 2018 and 2017, the Company recorded \$1,149 and \$1,128, respectively, in “Selling, general and administrative expenses” for stock options. For the six months ended June 30, 2018 and 2017, the Company recorded \$2,188 and \$2,126, respectively, in “Selling, general and administrative expenses” for stock options. As of June 30, 2018, the total compensation cost related to unvested stock options not yet recognized was \$8,486. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.2 years.

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The following table is a summary of the Company's stock options:

Options	Weighted	
	Number of	Average
	Shares	Exercise Price
Outstanding at December 31, 2017	1,484,914	\$ 32.53
Exercised	(112,669)	24.16
Forfeited or expired	(5,311)	36.94
Outstanding at March 31, 2018	1,366,934	33.20
Granted	14,265	53.70
Exercised	(93,500)	20.07
Forfeited or expired	(6,759)	35.06
Outstanding at June 30, 2018	1,280,940	34.38
Exercisable at June 30, 2018	544,596	\$ 26.37

The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2018 were \$2,535 and \$5,809, respectively. The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2017 were \$6,755 and \$9,342, respectively. The aggregate intrinsic values for all stock options outstanding and exercisable as of June 30, 2018 were \$23,184 and \$14,270, respectively.

The following table is a summary of the Company's unvested stock options, restricted stock and performance shares for which the requisite service period has not been rendered but that are expected to vest on the achievement of a performance condition:

Unvested		Unvested		Unvested	
Stock Options		Restricted Stock		Performance Shares	
Weighted-		Weighted-		Weighted-	
Average		Average		Average	
Number	Grant-Date	Number	Grant-Date	Number	Grant-Date
of Shares	Fair Value	of Shares	Fair Value	of Shares	Fair Value

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Unvested at December 31, 2017	757,269	\$ 15.20	265	\$ 44.23	276,250	\$ 42.08
Vested during period	(21,510)	13.99	-	-	-	-
Forfeited	(5,311)	13.90	-	-	(17,250)	40.65
Unvested at March 31, 2018	730,448	15.25	265	44.23	259,000	42.17
Granted	14,265	24.54	9,779	53.70	17,250	40.65
Vested during period	(1,610)	17.34	(265)	44.23	-	-
Forfeited	(6,759)	13.27	-	-	(28,750)	41.36
Unvested at June 30, 2018	736,344	\$ 15.44	9,779	\$ 53.70	247,500	\$ 42.16

For the three months ended June 30, 2018 and 2017, the Company recorded \$177 and \$188, respectively, in “Selling, general and administrative expenses” for restricted stock awards. For the six months ended June 30, 2018 and 2017, the Company recorded \$183 and \$194, respectively, in “Selling, general and administrative expenses” for restricted stock awards. As of June 30, 2018, total compensation cost related to unvested restricted stock not yet recognized was \$350. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 0.3 years.

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The Company granted equity-settled performance shares (“PS”) to certain executives. PS awards provide the recipient the right to receive a certain number of shares of the Company’s common stock in the future, which depends on the Company’s level of achievement of net revenue and EBITDA growth as compared to the net revenue and EBITDA growth of the members of a specified peer group of companies over a three year period. For the three months ended June 30, 2018 and 2017, the Company recorded \$227 and \$930, respectively, in “Selling, general and administrative expenses” related to these PS awards. For the six months ended June 30, 2018 and 2017, the Company recorded \$832 and \$1,713, respectively, in “Selling, general and administrative expenses” related to these PS awards. As of June 30, 2018, total compensation cost related to unvested performance shares not yet recognized was \$4,211. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.2 years.

(11) Retirement Plans

The Company recognizes all components of net periodic benefit cost except service costs in “Other expenses, net” in its income statement. Service costs are recognized in “Selling, general and administrative expenses” and “Cost of goods sold” in its income statement depending on the functional area of the underlying employees included in the plan. As a result of the adoption of ASU 2017-07, the Company recorded \$171 and \$482 to “Other expenses, net” for the three and six months ended June 30, 2018, respectively, which formerly would have been recorded as “Selling, general and administrative expenses” or “Cost of goods sold.” To conform to the current year presentation, for the three and six months ended June 30, 2017, the Company reclassified \$360 and \$723, respectively from “Selling, general and administrative expenses” and \$57 and \$107, respectively from “Cost of goods sold” to “Other expenses, net.”

Domestic Pension Plan

The components of net periodic benefit (credit)/cost for the Company’s domestic pension plan (which was frozen in 2007) for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Components of net periodic benefit (credit)/cost				
Interest cost	\$511	\$554	\$1,021	\$1,108
Expected return on plan assets	(792)	(677)	(1,584)	(1,354)
Recognized actuarial loss	180	200	359	400
Net periodic benefit (credit)/cost	\$(101)	\$77	\$(204)	\$154

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International Pension Plan

The components of net periodic benefit cost for the Company's international pension plan for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Components of net periodic benefit cost				
Service cost	\$253	\$228	\$523	\$453
Interest cost	182	178	376	353
Recognized actuarial loss	96	88	199	174
Amortization of prior service credit	(1)	(1)	(2)	(2)
Net periodic benefit cost	\$530	\$493	\$1,096	\$978

(12) Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company continually assesses known facts and circumstances as they pertain to applicable legal and environmental matters and evaluates the need for reserves and disclosures as deemed necessary based on these facts and circumstances. These matters, either individually or in the aggregate, could result in actual costs that are significantly higher than the Company's current assessment and could have a material adverse effect on the Company's operating results and cash flows in future reporting periods. Based upon past experience, the Company believes that payments significantly in excess of current reserves, if required, would be made over an extended number of years.

Environmental

In connection with laws and regulations pertaining to the protection of the environment, the Company and its subsidiaries are a party to several environmental proceedings and remediation activities and along with other companies, have been named a potentially responsible party ("PRP") for certain waste disposal sites ("Superfund sites"). All of the liabilities currently recorded on the Company's balance sheet for environmental proceedings are associated with discontinued operations. The Company had insurance policies in place at certain of the discontinued operations for certain years that the Company believes should cover some portion of the recorded liabilities or potential future liabilities and the Company expects the net cash impact related to the contingencies described below to be reduced by the applicable income tax rate.

It is the Company's policy to record appropriate liabilities for environmental matters where remedial efforts are probable and the costs can be reasonably estimated. Such liabilities are based on the Company's estimate of the undiscounted future costs required to complete the remedial work. Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided against the Company. The resolution of such matters often spans several years and frequently involves regulatory oversight or adjudication. Additionally, many remediation requirements are fluid and are likely to be affected by future technological, site and regulatory developments. It is not possible at this time for the Company to determine fully the effect of all asserted and unasserted claims on its consolidated financial condition, results of operations or liquidity; however, to the extent possible, where asserted and unasserted claims can be estimated and where such claims are considered probable, the Company would record a liability. Consequently, the ultimate liability with respect to such matters, as well as the timing of cash disbursements, is uncertain.

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In matters where the Company is able to reasonably estimate the probable and estimable costs associated with environmental proceedings, the Company accrues for the estimated costs associated with the study and remediation of applicable sites. At June 30, 2018, these reserves were \$17,800, of which \$16,726 is included in "Other non-current liabilities" on the Company's balance sheet. At December 31, 2017, the reserves were \$17,511, of which \$16,976 is included in "Other non-current liabilities" on the Company's balance sheet. The increase in the reserves includes adjustments to reserves of \$799, partially offset by payments of \$510. The reserves are adjusted periodically as remediation efforts progress or as additional technical, regulatory or legal information becomes available. Given the uncertainties regarding the outcome of investigative and study activities, the status of laws, regulations, enforcement, policies, the impact of other PRPs, technology and information related to individual sites, the Company does not believe it is possible to currently develop an estimate of the range of reasonably possible environmental loss in excess of its reserves.

Bayonne

As a result of the sale of a Bayonne, New Jersey facility, the Company became obligated to investigate site conditions and conduct required remediation under the New Jersey Industrial Site Recovery Act. The Company completed an investigation and sampling plan at the property pursuant to the New Jersey Department of Environmental Protection's ("NJDEP") private oversight program. The results will be used to develop a proposed remedial plan for the site, an outline of which was completed. Among other things, the remedial plan is anticipated to address removal of certain impacted soils and implementation of engineering controls and deed restrictions. Once prepared, the remedial plan will set forth further details of any cleanup. Estimates of the Company's future liability for remediation costs have been revised accordingly. As of June 30, 2018, the Company's reserve was \$665.

Clifton and Carlstadt

The Company has implemented a sampling and pilot program in Clifton and Carlstadt, New Jersey pursuant to the NJDEP private oversight program. The results of the sampling and pilot program to date have been used to develop an estimate of the Company's future liability for remediation costs, and the Company continues to move forward with the projects at each site in accordance with the established schedules and work plans. As of June 30, 2018, the Company's reserve was \$1,854.

Berry's Creek

The Company received a notice from the United States Environmental Protection Agency ("USEPA") that two subsidiaries of the Company are considered PRPs at the Berry's Creek Study Area in New Jersey. These subsidiaries are among many other PRPs that were listed in the notice. Pursuant to the notice, the PRPs have been asked to perform a remedial investigation ("RI") and feasibility study ("FS") of the Berry's Creek site. The Company has joined the group of PRPs and entered into an Administrative Settlement Agreement ("Agreement") and Order on Consent with the USEPA agreeing to jointly conduct or fund an appropriate remedial investigation and feasibility study of the Berry's Creek site with the other PRPs in the Agreement. The PRPs have engaged consultants to perform the work specified in the Agreement and develop a method to allocate related costs among the PRPs.

In June 2016, the PRPs received a request from USEPA to amend the RI/FS Work Plan to accommodate a phased, iterative approach to the Berry's Creek remediation. USEPA requested an initial Phase I remedy that focuses on a portion of the site, namely, sediments in Upper and Middle Berry's Creek and the marsh in Upper Peach Island Creek. Any subsequent remedial action will occur after the implementation and performance monitoring of this Phase I remedy and the extent of future action is expected to be at least partially determined by the outcome of this initial phase. In April 2017, USEPA approved the requested addendum to the RI/FS Work Plan, which included the description of the phased and adaptive management approach to the Berry's Creek remedy.

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The scope of remedial activities in the initial Phase I remedy is currently being developed and based upon preliminary cost estimates, the Company's reserve was \$9,728 as of June 30, 2018. The estimated costs for the initial Phase I remedy may be further developed and the Company's accrual may change based upon the final remedy selected and revisions to cost estimates. At this time it is not known when the costs for the complete remediation plan will be estimable, and as such, no accrual beyond the initial Phase I remedy has been recorded. The Company's share has been preliminarily estimated by the PRP group at 2.4%. While the Company will defend its position that its share should be reduced from the current level, its share could be increased or decreased depending on the outcome of the final allocation process that will take place in future periods.

While any resolution of this matter is not expected to materially impact the Company's operations or financial position, it could be material to the financial statements in the period recorded.

In July 2014, the Company received a notice from the U.S. Department of the Interior, U.S. Fish & Wildlife Service, regarding the Company's potential liability for natural resource damages at the Berry's Creek site and inviting the Company to participate in a cooperative assessment of natural resource damages. Most members of the Berry's Creek PRP group received such notice letters, and the PRP Group coordinated a joint response, which was to decline participation in a cooperative assessment at this time, given existing investigation work at the site. The cost of any future assessment and the ultimate scope of natural resource damage liability are not yet known.

Maybrook Site

A subsidiary of Cambrex is named a PRP of a site in Hamptonburgh, New York by the USEPA in connection with the discharge, under appropriate permits, of wastewater at that site prior to Cambrex's acquisition in 1986. The PRPs implemented soil remediation which was completed in 2012 pending approval by the USEPA. The PRPs will continue implementing the ground water remediation at the site. USEPA has commenced its 5-year review process, and USEPA's review of the site is on-going. It is unclear if such review, together with an agreed proposed modification to the USEPA Consent Decree, will result in any additional site work. As of June 30, 2018, the Company's reserve was \$329, to cover long-term ground water monitoring and related costs.

Harriman Site

Subsidiaries of Cambrex and Pfizer are named as responsible parties for the Company's former Harriman, New York production facility by the New York State Department of Environmental Conservation ("NYSDEC"). A final Record of Decision ("ROD") describing the Harriman site remediation responsibilities for Pfizer and the Company was issued in 1997 (the "1997 ROD") and incorporated into a federal court Consent Decree in 1998 (the "Consent Decree"). In December 2013, the Company, Pfizer and the NYSDEC entered into a federal court stipulation, which the court subsequently endorsed as a court order, resolving certain disputes with the NYSDEC about the scope of the obligations under the Consent Decree and the 1997 ROD, and requiring the Company and Pfizer to carry out an environmental investigation and study of certain areas of the Harriman Site.

Site clean-up work under the 1997 ROD, the Consent Decree and the 2013 stipulation is ongoing and is being jointly performed by Pfizer and the Company, with NYSDEC oversight. Since 2014, Pfizer and the Company have performed supplemental remedial investigation measures requested by the NYSDEC, and the findings have been submitted to NYSDEC in various reports, including a study evaluating the feasibility of certain remedial alternatives in August 2016. By letter dated January 5, 2017, NYSDEC disapproved such feasibility study report and requested certain revisions to the report. The Company and Pfizer engaged in

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further discussions with NYSDEC and have agreed to submit a revised version of the August 2016 feasibility study to address certain of NYSDEC's requests. In September 2017, the NYSDEC requested that Pfizer, the Company and the current owner of the Harriman Site, ELT Harriman LLC ("ELT"), conduct an investigation of additional constituents not addressed under the 1997 ROD based on the detection of those constituents at the Harriman Site and other properties in the area. The parties have requested more information from the State of New York to evaluate the request, while also responding to NYSDEC that no further investigation was warranted.

As it is too soon to determine whether the NYSDEC's requests or the reports and remedial plans, when finalized, will result in any significant changes to the Company's responsibilities, no change to the reserve has been made. ELT is conducting other investigation and remediation activities under a separate NYSDEC directive.

No final remedy for the site has been determined, which will follow further discussions with the NYSDEC. The Company estimates the range for its share of the liability at the site to be between \$2,000 and \$7,000. As of June 30, 2018, the Company's reserve was \$3,365. At this time, the Company is unable to provide an estimate of the ultimate investigative and remedial costs to the Company for any final remedy selected by the NYSDEC.

The Company intends to enforce all of its contractual rights to recover costs and for indemnification under a 2007 settlement agreement, and has filed such claims in an arbitration proceeding against ELT and the immediately preceding owner, Vertellus Specialties Holdings ("Vertellus"). ELT has filed counterclaims, and has threatened to file additional counterclaims, for contractual indemnification and for breach of the settlement agreement against the Company. Currently, the arbitration proceeding is stayed indefinitely. In May 2016, some but not all of the Vertellus entities who are parties to the Company's 2007 settlement agreement filed for restructuring under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company has filed several claims as creditors in the bankruptcy proceeding and will continue to monitor the bankruptcy proceeding.

Scientific Chemical Processing ("SCP") Superfund Site

A subsidiary of Cambrex was named a PRP of the SCP Superfund site, located in Carlstadt, New Jersey, along with approximately 130 other PRPs. The site is a former waste processing facility that accepted various waste for recovery and disposal including processing wastewater from this subsidiary. The PRPs are in the process of implementing a final remedy at the site. The SCP Superfund site has also been identified as a PRP in the Berry's Creek Superfund site (see previous discussion). While the Company continues to dispute the methodology used by the PRP group to arrive at its interim allocation for cash contributions, the Company has paid the funding requests. A final allocation of SCP Site costs (excluding Berry's Creek costs) is expected to be finalized in 2018. As of June 30, 2018, the Company's reserve was \$747, of which approximately \$478 is expected to be covered by insurance.

Newark Bay Complex

The USEPA and a private party group are evaluating remediation plans for the Passaic River, Newark Bay, Hackensack River, Arthur Kill, Kill Van Kull and adjacent waters (the "Newark Bay Complex"). Although the Company is not involved in the USEPA action, it continues to monitor developments related to the site due to its past

involvement in a previously settled state action relating to the Newark Bay Complex. The USEPA has finalized its decision on a cleanup plan for 8.3 miles of the lower Passaic River, and has estimated the cost of this plan at \$1.38 billion. Due to the uncertainty of the future scope and timing of any possible claims against the Company, no liability has been recorded.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

The Company is involved in other related and unrelated environmental matters where the range of liability is not reasonably estimable at this time and it is not foreseeable when information will become available to provide a basis for adjusting or recording a reserve, should a reserve ultimately be required.

Litigation and Other Matters

Lorazepam and Clorazepate

In 1998, the Company and a subsidiary were named as defendants along with Mylan Laboratories, Inc. (“Mylan”) and Gyma Laboratories, Inc. (“Gyma”) in a proceeding instituted by the Federal Trade Commission in the United States District Court for the District of Columbia (the “District Court”). Suits were also commenced by several State Attorneys General and class action complaints by private plaintiffs in various state courts. The suits alleged violations of the Federal Trade Commission Act arising from exclusive license agreements between the Company and Mylan covering two APIs (Lorazepam and Clorazepate).

In 2003, Cambrex paid \$12,415 to Mylan in exchange for a release and full indemnity against future costs or liabilities in related litigation brought by the purchasers of Lorazepam and Clorazepate, as well as potential future claims related to the ongoing matter.

Following trial in 2008 in the sole remaining case brought by four health care insurers, the District Court entered judgment against Mylan, Gyma and Cambrex. The judgment was appealed to the United States Court of Appeals for the District of Columbia Circuit (the “D.C. Circuit”) in 2011, resulting in a remand to the District Court. On remand, the District Court dismissed certain self-funded customer plaintiffs due to their failure to satisfy the requirements of federal jurisdiction. Subsequently, the District Court entered an order remitting certain damages. Without fees, costs, or post-judgment interest, the current judgment against Mylan, Gyma, and Cambrex was \$67,260. Mylan, Gyma, and Cambrex again appealed to the D.C. Circuit. In July 2018, Mylan, Gyma, and Cambrex reached a settlement with the remaining plaintiffs. After the settlement is finalized, Mylan, Gyma, and Cambrex will file a motion to vacate the judgment. Cambrex has been fully indemnified by Mylan for the settlement payments.

(13) Discontinued Operations

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation expenses for divested sites. The following table is a reconciliation of the pre-tax loss on discontinued operations to the net loss on discontinued operations, as presented on the income statement:

	Three Months	
	Ended	Six Months
	June 30,	Ended June 30,

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	2018	2017	2018	2017
Loss from discontinued operations	\$(519)	\$(149)	\$(756)	\$(2,072)
Income tax benefit	86	55	132	728
Loss from discontinued operations, net of tax	\$(433)	\$(94)	\$(624)	\$(1,344)

As of June 30, 2018 and December 31, 2017, liabilities recorded on the Company's balance sheet related to discontinued operations were \$17,800 and \$17,511, respectively. At this time, the Company cannot reasonably estimate the period of time during which the involvement is expected to continue. Net cash used in discontinued operations for the six months ended June 30, 2018 and 2017 were \$431 and \$1,190, respectively. Refer to Note 12 to the Company's consolidated financial statements for further disclosures on the Company's environmental contingencies.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(14) Subsequent Event

On July 23, 2018, the Company announced it entered into a definitive agreement to acquire Halo Pharma (“Halo”), a leading dosage form Contract Development and Manufacturing Organization, majority owned by funds managed by the private investment firm SK Capital Partners. Halo operates two state-of-the-art, GMP compliant facilities located in Whippany, NJ, USA and Montreal, Quebec, Canada. The Company will acquire Halo for \$425,000 in total cash consideration. The acquisition will be funded with a combination of cash on hand and borrowings against the Company’s \$500,000 senior credit facility. Completion of the transaction is subject to customary closing conditions and is expected to occur during the third quarter of 2018.

CAMBREX CORPORATION AND SUBSIDIARIES

(in thousands, except share data)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Overview

The following summarizes the Company's performance for the second quarter of 2018:

- The Company adopted ASC 606 - Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective method. The cumulative effect adjustment recorded to retained earnings as of January 1, 2018 was \$16,219, net of tax. Additionally, the increase in revenue, cost of goods sold, and operating profit as a result of applying ASC 606 for the three months ending June 30, 2018 was \$18,988, \$4,020, and \$14,968, respectively.
- Net revenue increased 13.0% on a reported basis compared to the second quarter of 2017. Net revenue, excluding currency impact, increased 10.5%. Excluding the impact of the new revenue recognition standard, net revenue decreased 1.1% on a reported basis and excluding the currency impact, decreased 3.7%.
- Gross margins decreased to 42.6% from 42.8% in the second quarter of 2017. Excluding the impact of the new revenue recognition standard, gross margin was 37.4%.
- Net cash was \$171,348 compared to \$187,568 at March 31, 2018, a decrease of \$16,220.

Critical Accounting Estimates

The Company's critical accounting estimates are those that require the most subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company bases its estimates on historical experience and on other assumptions that are deemed reasonable by management under each applicable circumstance. Actual results or amounts could differ from estimates and the differences could have a material impact on the consolidated financial statements. See the "Critical Accounting Estimates" section of the Company's Annual Report on Form 10-K for the period ended December 31, 2017 for further discussion of the Company's critical accounting policies, the underlying judgments and uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions. The policy updates from the previously filed Form 10-K are as follows:

Revenue Recognition

2018 results are accounted for under the following new policy:

The Company adopted Topic 606 Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective method. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. The cumulative effect of initially applying the new revenue standard was recorded as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under accounting standard Topic 605 which was in effect for those periods.

Revenue is recognized when control over a product or service is transferred to a customer. Revenue is measured as the amount of consideration expected in exchange for transferring goods or providing services.

Sales terms to certain customers include rebates if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and returns at the time of sale based on the terms of agreements with customers and historical experience and

estimated orders. The Company recognizes revenue net of these estimated costs which are classified as allowances and rebates.

Shipping and handling costs are treated as fulfillment costs and estimates for the portion of revenue recognized on performance obligations recognized over time are accrued.

For variable consideration arrangements where the transaction price fluctuates based on quantity, the most likely estimated quantity is assumed using forecasts provided by the customer.

Single-use products

In most single-use product sales, a quantity is ordered and manufactured according to the customer's specifications and typically only one performance obligation is included. The Company also manufactures early phase product that can be included in a contract with services. These services are distinct and separated from the product performance obligations and are shown as a service revenue stream. The products are manufactured exclusively for a specific customer and have no alternative use. Under these customer agreements, the Company is entitled to consideration for progress to date that includes an element of profit margin. Revenues related to this product stream are recognized over time utilizing a measure of progress toward satisfaction of the performance obligations. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. The raw materials are excluded from this measurement due to the high value and inclusion in the early stages of the project that would otherwise overstate progress to date.

Multi-use products

The Company's multi-use product sales can be sold to multiple customers and have an alternative use. Both the transaction sales price and shipping terms are agreed upon in the contract. For these products, all revenue is recognized at a point in time, generally when title to products and risk of loss is transferred to the customers based upon shipping terms. These arrangements typically include only one performance obligation.

Service revenue

The service revenue stream represents services provided to a customer to assist with early stages of the regulatory approval process. The customer owns the drug details and process. The Company works with its customers to develop, validate and document the production process in order to comply with the regulatory approval process. These custom development projects could have one or more performance obligations with no alternative use. The contracts are structured to ensure the Company is paid for in-process work, including a profit margin. Revenues related to this stream are recognized over time by allocating to each performance obligation the best estimate of the standalone selling price of each service. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. Standalone selling prices are generally based on the prices charged to customers or based on an expected cost-plus margin.

Contract balances

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contracts assets (unbilled receivables), and contract liabilities (customer advances and deferred revenue). For each reporting period presented, the Company reports contract balances in a net contract asset or liability position on a contract-by-contract basis. Contract assets are recorded when the right to consideration is conditioned on something other than the passage

of time. When an entity's right to consideration is unconditional, the receivable is recorded within Trade Receivables on the balance sheet. Contract liabilities represent advance payments from customers, and deferred revenue. Contract assets will convert to trade receivables or cash and current contract liabilities will convert into revenue within a one-year period.

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Payment terms can vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, payment prior to satisfaction of a performance obligation can be required, and results in recording a contract liability.

All prior periods presented are accounted for under the following policy:

Revenues are generally recognized when title to products and risk of loss are transferred to customers. Additional conditions for recognition of revenue are that collection of sales proceeds is reasonably assured and the Company has no further performance obligations.

Amounts billed in advance are recorded as contract liabilities on the balance sheet. Since payments received are sometimes non-refundable, the termination of a contract by a customer prior to its completion could result in an immediate recognition of deferred revenue relating to payments already received but not previously recognized as revenue.

Sales terms to certain customers include rebates if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and returns at the time of sale based on the terms of agreements with customers and historical experience and estimated orders. The Company recognizes revenue net of these estimated costs which are classified as allowances and rebates.

The Company bills a portion of freight cost incurred on shipments to customers. Amounts billed to customers are recorded within net revenues. Freight costs are reflected in cost of goods sold.

Results of Operations

Comparison of Second Quarter 2018 versus Second Quarter 2017

Net revenue in the second quarter of 2018 of \$152,046 was \$17,492 or 13.0% higher than the second quarter of 2017. Excluding a 2.5% favorable impact of foreign exchange compared to the second quarter of 2017, net revenue increased 10.5% as a result of higher volumes (12.0%) partially offset by lower pricing (1.5%). The increase in volumes was driven by custom development products and generic APIs.

Excluding the impact of the new revenue recognition standard, net revenue in the second quarter of 2018 decreased 1.1% compared to the second quarter of 2017 to \$133,058. Excluding a 2.6% favorable impact of foreign exchange compared to the second quarter of 2017, net revenue decreased 3.7%. The decrease in volumes was driven by lower sales of branded APIs partially offset by higher sales of controlled substances and generic APIs.

The following table reflects net revenue by geographic area for the second quarters of 2018 and 2017:

	Second quarter	
	2018	2017
Europe	\$98,221	\$90,821
North America	43,764	36,145
Asia	3,182	4,946
Other	6,879	2,642

Total net revenue \$152,046 \$134,554

Gross margins in the second quarter of 2018 decreased to 42.6% from 42.8% in the second quarter of 2017. The decrease was primarily driven by lower pricing, partially offset by a contract termination payment of \$3,200 with no associated costs. Gross profit in the second quarter of 2018 was \$64,792 compared to \$57,559 in the same period last year.

Excluding the impact of the new revenue recognition standard, gross margins in the second quarter of 2018 decreased to 37.4% from 42.8% in the second quarter of 2017. Gross profit in the second quarter of 2018 would have been \$49,824 compared to \$57,559 in the same period last year.

Selling, general and administrative (“SG&A”) expenses of \$16,007 in the second quarter of 2018 decreased compared to \$18,120 in the second quarter of 2017. The decrease was mainly due to lower personnel related costs (approximately \$2,500). SG&A, as a percentage of net revenue, was 10.5% and 13.5% in the second quarters of 2018 and 2017, respectively.

Research and development (“R&D”) expenses of \$4,133 were 2.7% of net revenue in the second quarter of 2018, compared to \$4,467 or 3.3% of net revenue in the second quarter of 2017. The decrease was primarily driven by the timing of spending on the development of generic drug products.

Operating profit in the second quarter of 2018 was \$44,652 compared to \$34,972 in the second quarter of 2017. The increase in operating profit was due to higher gross profit and lower operating expenses as described above.

Excluding the impact of the new revenue recognition standard, operating profit in the second quarter of 2018 was \$29,684.

Net interest expense was \$17 in the second quarter of 2018 compared to \$388 in the second quarter of 2017. The decrease is due to higher interest income generated from higher cash balances. The Company did not have any debt outstanding as of June 30, 2018 and 2017.

During the second quarter of 2018, the Company acquired a 19.9% equity investment in a European company (“Investee”). The Investee completed an initial public offering on a foreign exchange late in the quarter, which reduced the Company’s ownership share to 16.3%. The Company’s investment is subject to a one-year prohibition on selling the shares. The Company has one seat on the Board of Directors of the investee and concluded it is able to exercise significant influence and that equity accounting would be appropriate. In accordance with ASC 825, the Company has elected to record this investment at fair value. The Company selected an appropriate valuation methodology to compute a discount for the lack of marketability to be applied to the closing market price of the shares as of June 30, 2018. The fair value of the Company’s shares increased by \$5,146 at June 30, 2018 resulting in an unrealized gain that was recorded as “Unrealized gain on investment in equity securities” on the Company’s income statement. Since the shares owned by the Company are substantially in excess of the daily trade volumes of the stock, it could be difficult to sell the shares in a timely manner when the restrictions lapse and it is possible the ultimate value to be realized by the Company could be significantly less upon a sale of the securities.

Income tax expense from continuing operations for the three months ended June 30, 2018 and 2017 was \$8,748 and \$9,174, respectively. The effective tax rate for the three months ended June 30, 2018 and 2017 was 17.6% and 26.7%, respectively. Excluding the favorable impact of immediately recognizing certain effects of share-based compensation, the effective tax rate would have been 20.1% for the three months ended June 30, 2018.

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Income from continuing operations in the second quarter of 2018 was \$40,852, or \$1.21 per diluted share, versus \$25,124, or \$0.75 per diluted share in the same period a year ago.

Excluding the impact of the new revenue recognition standard, income from continuing operations in the second quarter of 2018 was \$29,347, or \$0.87 per diluted share.

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Comparison of First Six Months of 2018 versus First Six Months of 2017

Net revenue in the first six months of 2018 of \$293,143 was \$53,583 or 22.4% higher than the first six months of 2017. Excluding a 3.2% favorable impact of foreign exchange compared to the first six months of 2017, net revenue increased 19.2% as a result of higher volumes (19.9%) partially offset by lower pricing (0.7%). The increase in volumes was driven by higher sales of branded and generic APIs, and custom development products partially offset by lower sales of controlled substances.

Excluding the impact of the new revenue recognition standard, net revenue in the first six months of 2018 decreased 1.1% compared to the first six months of 2017 to \$236,875. Excluding a 3.0% favorable impact of foreign exchange compared to the first six months of 2017, net revenue decreased 4.1%. The decrease in volumes was driven by lower sales of branded APIs and controlled substances partially offset by higher sales of custom development products and generic APIs.

The following table reflects net revenue by geographic area for the first six months of 2018 and 2017:

	First six months	
	2018	2017
Europe	\$184,959	\$137,364
North America	91,438	87,062
Asia	7,852	10,066
Other	8,894	5,068
Total gross sales	\$293,143	\$239,560

Gross margins in the first six months of 2018 decreased to 39.5% from 43.6% in the first six months of 2017. The decrease was primarily driven by certain inventory charges due to batch failures in the first quarter of 2018, unfavorable manufacturing variances and unfavorable product mix, partially offset by a contract termination payment of \$3,200 with no associated costs. Gross profit in the first six months of 2018 was \$115,647 compared to \$104,434 in the same period last year.

Excluding the impact of the new revenue recognition standard, gross margins in the first six months of 2018 decreased to 35.5% from 43.6% in the first six months of 2017. Gross profit in the first six months of 2018 would have been \$84,098 compared to \$104,434 in the same period last year.

Selling, general and administrative (“SG&A”) expenses of \$32,862 in the first six months of 2018 decreased compared to \$33,511 in the first six months of 2017. The decrease was mainly due to lower personnel related costs (approximately \$2,800) partially offset by an increase in certain consulting costs (approximately \$1,200), the impact of foreign currency (approximately \$1,000) and due diligence costs related to mergers and acquisition activities (approximately \$300). SG&A, as a percentage of net revenue, was 11.2% and 14.0% in the first six months of 2018 and 2017, respectively.

Research and development (“R&D”) expenses of \$7,752 were 2.6% of net revenue in the first six months of 2018, compared to \$8,357 or 3.5% of net revenue in the first six months of 2017. The decrease was primarily driven by higher absorption of R&D expenses into inventory and cost of goods sold as a result of increased revenue generating activity (approximately \$1,800) and the timing of spending on the development of generic drug products (approximately \$600) partially offset by higher personnel costs (approximately \$1,600).

Operating profit in the first six months of 2018 was \$75,033 compared to \$62,566 in the first six months of 2017. The increase in operating profit was due to higher gross profit and lower operating expenses as described above.

Excluding the impact of the new revenue recognition standard, operating profit in the first six months of 2018 was \$43,484.

Net interest expense was \$99 in the first six months of 2018 compared to \$654 in the first six months of 2017. The decrease is due to higher interest income generated from higher cash balances. The Company did not have any debt outstanding as of June 30, 2018 and 2017.

During the second quarter of 2018, the Company acquired a 19.9% equity investment in a European company (“Investee”). The Investee completed an initial public offering on a foreign exchange late in the quarter, which reduced the Company’s ownership share to 16.3%. The Company’s investment is subject to a one-year prohibition on selling the shares. The Company has one seat on the Board of Directors of the investee and concluded it is able to exercise significant influence and that equity accounting would be appropriate. In accordance with ASC 825, the Company has elected to record this investment at fair value. The Company selected an appropriate valuation methodology to compute a discount for the lack of marketability to be applied to the closing market price of the shares as of June 30, 2018. The fair value of the Company’s shares increased by \$5,146 at June 30, 2018 resulting in an unrealized gain that was recorded as “Unrealized gain on investment in equity securities” on the Company’s income statement. Since the shares owned by the Company are substantially in excess of the daily trade volumes of the stock, it could be difficult to sell the shares in a timely manner when the restrictions lapse and it is possible the ultimate value to be realized by the Company could be significantly less upon a sale of the securities.

Income tax expense from continuing operations for the six months ended June 30, 2018 and 2017 was \$14,534 and \$14,986, respectively. The effective tax rate for the six months ended June 30, 2018 and 2017 was 18.3% and 24.5%, respectively. Excluding the favorable impact of immediately recognizing certain effects of share-based compensation, the effective tax rate would have been 19.9% for the six months ended June 30, 2018.

Income from continuing operations in the first six months of 2018 was \$65,101, or \$1.94 per diluted share, versus \$46,239, or \$1.38 per diluted share in the same period a year ago.

Excluding the impact of the new revenue recognition standard, income from continuing operations in the first six months of 2018 was \$40,186, or \$1.20 per diluted share.

Liquidity and Capital Resources

During the first six months of 2018, cash provided by operations was \$17,502 versus \$37,077 in the same period a year ago. This decrease was primarily due the timing of accounts receivable collections and unbilled revenue partially offset by the timing of accounts payable payments.

Cash flows used in investing activities in the first six months of 2018 related to capital expenditures of \$32,733 compared to \$22,862 in the same period a year ago. Capital expenditures in the first six months of 2018 and 2017 primarily expanded the Company’s manufacturing capacity to support expected growth.

Cash flows provided by financing activities in the first six months of 2018 were \$4,599 compared to \$2,973 in the same period a year ago. The 2018 and 2017 cash flows relate to proceeds from stock options exercised.

The Company expects to spend approximately \$70,000 to \$80,000 on capital expenditures during 2018, excluding acquisitions.

The Company has a \$500,000 Senior Credit Facility. Borrowings under the Credit Facility bear interest at a rate per annum of LIBOR plus a margin ranging from 1.25% to 2%. The facility is currently undrawn.

The Company believes 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 for the foreseeable future.

During the second quarter of 2018, the Company announced it entered into a definitive agreement to acquire Halo Pharma (“Halo”), a leading dosage form Contract Development and Manufacturing Organization. The Company will acquire Halo for \$425,000 in total cash consideration. The acquisition will be funded with a combination of cash on hand and borrowings against the Company’s \$500,000 senior credit facility. Completion of the transaction is subject to customary closing conditions and is expected to occur during the third quarter of 2018.

The Company’s forecasted cash flow from future operations may be adversely affected by various factors including, but not limited to, declines in customer demand, increased competition, the deterioration in general economic and business conditions, increased environmental remediation, returns on assets within the Company’s domestic pension plans, as well as other factors.

Our largest product (32.8% of 2017 sales), is used by our customer to produce an anti-viral drug. Our customer's sales of this drug have been trending downwards and, accordingly, we expect our sales of this product to our customer to also trend downwards over the next few years. We have a 5-year supply agreement ending in December 2020 that includes a defined minimum volume for 2019, which represents a further significant decline compared to the volumes we expect to ship in 2018. There is no minimum volume stipulated in the agreement for 2020.

As discussed more fully in Note 12 to the Consolidated Financial Statements, the Company continually receives additional information to develop estimates to record reserves for remediation activities at Berry’s Creek and other environmental sites. These matters, either individually or in the aggregate, could result in actual costs that are significantly higher than the Company’s current assessment and could have a material adverse effect on the Company's cash flows in future reporting periods. Based upon past experience, the Company believes that payments significantly in excess of current reserves, if required, would be made over an extended number of years.

See the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the period ended December 31, 2017 for further explanation of factors that may negatively impact the Company’s cash flows.

Impact of Recent Accounting Pronouncements

The following accounting pronouncements became effective for the Company January 1, 2018:

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 which introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the new accounting standard ASC Topic 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts not completed as of January 1, 2018 using the modified retrospective method. The cumulative effect of initially applying the new revenue standard was \$16,219 and has been recorded as an adjustment to increase the opening balance of retained earnings. The cumulative effect adjustment relates primarily to the recognition of revenue and costs for contracts that transfer promised goods or services over time. Gross sales, cost of goods sold, and tax expense of \$51,896, \$31,347, and \$4,330 respectively, were recorded as part of the cumulative effect adjustment. The comparative information has not been restated and is reported in accordance with accounting standard Topic 605, which was in effect for those periods.

Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

In March 2017, the FASB issued ASU 2017-07 which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined pension and other postretirement plans. The ASU requires entities to disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if such subtotal is presented. This standard became effective for the Company on January 1, 2018. For the three and six months ended June 30, 2018, the Company recorded \$171 and \$482, respectively, to "Other expenses, net" which formerly would have been recorded as "Selling, general and administrative expenses" or "Cost of goods sold." To conform to the current year presentation, for the three and six months ended June 30, 2017 the Company reclassified \$360 and \$723, respectively, from "Selling, general and administrative expenses" and \$57 and \$107, respectively, from "Cost of goods sold" to "Other expenses, net."

Scope of Modification Accounting, Stock Based Compensation

In May 2017, the FASB issued ASU 2017-09 which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. The amendment became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15 which provides guidance on the presentation and classification in the statement of cash flows for specific cash receipt and payment transactions, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees. The standard became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period

should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

The following recently issued accounting pronouncements will become effective for the Company in future periods:

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02 to address the tax effects of the Tax Cuts & Jobs Act (“TCJA”) on amounts that were initially recognized directly in AOCI. ASU 2018-02 allows an entity to elect a one-time reclassification from AOCI to retained earnings of stranded tax effects due to the enactment of TCJA, equal to the difference between the amount initially charged or credited directly to AOCI at the previously enacted U.S. federal corporate income tax rate and the amount that would have been charged or credited directly to AOCI by using the newly enacted tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the provisions of ASU 2018-02 and will determine in a later period if the reclassification from AOCI to retained earnings addressed in the ASU will be elected.

Effects of the Tax Cuts and Jobs Act

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“SAB No. 118”) which allowed SEC registrants to record provisional amounts for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of TCJA. The Company recognized the estimated income tax effects of TCJA in its 2017 Consolidated Financial Statements in accordance with SAB No. 118. Refer to Note 6 for further information regarding the provisional amounts recorded by the Company as of December 31, 2017.

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07 which aligns the accounting for share-based payment awards issued to nonemployees with those issued to employees. Under the new guidance, the nonemployee awards will be measured on the grant date and compensation costs will be recognized when achievement of the performance condition is probable. This new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms greater than twelve months. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. At this time, the Company has no significant financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. Several updates have been issued in 2018 that provide clarification on a number of specific issues and reporting requirements. The Company is currently evaluating the new guidance and does not expect the adjustment will be material to the Company, assuming there is not an increase in lease activity.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 which simplifies the goodwill impairment test by eliminating Step 2 in the determination on whether goodwill should be considered impaired. Instead, an

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impairment charge should equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard also makes certain targeted improvements to simplify the application of the hedge accounting guidance. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no significant change in the Company's exposure to market risk during the first six months of 2018. For a discussion of the Company's exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter covered by this report that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

CAMBREX CORPORATION AND SUBSIDIARIES

Item 1. Legal Proceedings

See the discussion under Part I, Item 1, Note 12 to the Company's Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors and uncertainties during the first six months of 2018. For a discussion of the Risk Factors, refer to Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2017.

Item 6. Exhibits

Exhibit 2.1*† Purchase and Sale Agreement, dated July 20, 2018, by and among Cambrex Corporation, Halo Pharmaceutical, Inc., 8121117 Canada Inc., Halo Pharmaceutical Canada Inc., the Sellers party thereto, SK Capital Partners, L.P., as Sellers' Representative, and SK Angel Holdings, L.P., as Seller Guarantor.

Exhibit 31.1* Section 302 Certification Statement of the Chief Executive Officer.

Exhibit 31.2* Section 302 Certification Statement of the Chief Financial Officer.

Exhibit 32.1** Section 906 Certification Statements of the Chief Executive Officer and Chief Financial Officer.

Exhibit 101.INS* XBRL Instance Document

Exhibit 101.SCH* XBRL Taxonomy Extension Schema

Exhibit 101.CAL* XBRL Taxonomy Extension Calculation Linkbase

Exhibit XBRL Taxonomy Extension Definition Linkbase
101.DEF*

Exhibit XBRL Taxonomy Extension Label Linkbase
101.LAB*

Exhibit XBRL Taxonomy Extension Presentation Linkbase
101.PRE*

* Filed herewith

**Furnished herewith

Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of such schedules to the SEC upon its request; provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any schedule so furnished. The representations, warranties and covenants contained in the agreement were solely for the benefit of the parties thereto, and may be subject to limitations agreed upon by such parties, including being qualified by confidential disclosures made by each contracting party to the other. In addition, such representations, warranties and covenants (i) were intended as a way of allocating the risk between the parties to the agreement and not as statements of fact, and (ii) may apply standards of materiality in a way that is different from what may be viewed as material by stockholders of, or other investors in, the Company. Moreover, information concerning the subject matter of such representations and warranties may change after the date of the agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. Accordingly, investors should not rely on such representations, warranties and covenants, which should be read only in conjunction with the other information in reports, statements and other filings that the Company makes with the SEC.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) Consolidated Income Statements for the three and six months ended June 30, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, and (v) Notes to Consolidated Financial Statements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAMBREX CORPORATION

By/s/Tom G. Vadaketh
Tom G. Vadaketh
Executive Vice President and
Chief Financial Officer
(On behalf of the Registrant and as the
Registrant's Principal Financial Officer)

Dated: August 2, 2018