CAMBREX CORP
Form 10-Q
August 01, 2014

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

FORM 10-Q

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

for the quarterly period ended June 30, 2014

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

for the transition period from __________ to ________________
Commission file number 1-10638

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

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

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

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

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

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

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

Large accelerated filer o   Accelerated filer ý   Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o

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

As of July 31, 2014, there were 30,679,915 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 and incorporates by reference forward-looking statements including statements regarding expected performance, including, but not limited to, the Company's belief that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company, as well as other statements relating to expectations with respect to sales, the timing of orders, research and development expenditures, earnings per share, capital expenditures, the outcome of pending litigation (including environmental proceedings and remediation investigations) and related estimates of potential liability, acquisitions, divestitures, collaborations or other expansion opportunities. These statements may be identified by the fact that they use words such as "may," "will," "could," "should," "would," "expect," "anticipate," "intend," "estimate," "believe" or similar 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 contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2013, captioned "Risk Factors," or otherwise described in the Company's filings with the Securities and Exchange Commission, provide examples of such risks and uncertainties that may cause the Company's actual results to differ materially from the expectations the Company describes in its forward-looking statements, including, but not limited to, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and regulations (particularly environmental issues), tax rates, interest rates, technology, manufacturing and legal issues, including the outcome of outstanding litigation, changes in foreign exchange rates, uncollectible receivables, the timing of orders, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, the Company's ability to receive regulatory approvals for its products and continued demand in the U.S. for late stage clinical products or the successful outcome of the Company's investment in new products.

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

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,450	$ 22,745
Trade receivables, net	69,751	71,276
Other receivables	11,551	12,943
Inventories, net	103,006	89,965
Prepaid expenses and other current assets	9,224	5,631
Total current assets	212,982	202,560
Property, plant and equipment, net	170,164	171,966
Goodwill	47,811	38,670
Intangible assets, net	8,566	4,011
Investments in and advances to partially-owned affiliates	787	13,364
Deferred income taxes	30,102	19,799
Other non-current assets	5,658	7,667
Total assets	$ 476,070	$ 458,037
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 28,490	$ 29,052
Deferred revenue	22,131	20,121
Accrued expenses and other current liabilities	47,501	48,098
Total current liabilities	98,122	97,271
Long-term debt	74,000	79,250
Deferred income taxes	13,353	12,835
Accrued pension benefits	37,614	40,123
Other non-current liabilities	17,444	18,338
Total liabilities	240,533	247,817
Stockholders' equity:		
Common stock, $.10 par value; authorized 100,000,000, issued 32,437,445 and 32,240,795 shares at respective dates	3,243	3,223
Additional paid-in capital	113,495	109,765
Retained earnings	151,827	131,178
Treasury stock, at cost, 1,757,530 and 1,757,530 shares at respective dates	(14,984)	(14,984)
Accumulated other comprehensive loss	(18,044)	(18,962)

Total stockholders' equity	235,537	210,220
Total liabilities and stockholders' equity	$ 476,070	$ 458,037

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 June 30, 2014	2013	Six months ended June 30, 2014	2013
Gross sales	$97,972	$61,628	$164,164	$136,209
Commissions, allowances and rebates	625	65	1,174	228
Net sales	97,347	61,563	162,990	135,981
Other revenue	546	1,240	1,008	1,707
Net revenues	97,893	62,803	163,998	137,688
Cost of goods sold	64,478	43,552	114,005	93,688
Gross profit	33,415	19,251	49,993	44,000
Operating expenses:				
Selling, general and administrative expenses	14,560	10,622	26,193	21,726
Research and development expenses	3,631	2,765	6,106	4,959
Total operating expenses	18,191	13,387	32,299	26,685
Gain on sale of asset	-	-	-	4,680
Operating profit	15,224	5,864	17,694	21,995
Other expenses/(income):				
Interest expense, net	543	488	1,065	983
Other (income)/expense, net	(3)	38	(21)	6
Equity in losses of partially-owned affiliates	4,272	668	4,618	1,149
Income before income taxes	10,412	4,670	12,032	19,857
(Benefit)/provision for income taxes	(9,415)	1,534	(8,961)	5,296
Income from continuing operations	19,827	3,136	20,993	14,561
Loss from discontinued operations, net of tax	(160)	(862)	(344)	(1,119)
Net income	$19,667	$2,274	$20,649	$13,442
Basic earnings/(loss) per share of common stock:				
Income from continuing operations	$0.65	$0.10	$0.69	$0.48
Loss from discontinued operations, net of tax	$(0.01)	$(0.03)	$(0.02)	$(0.03)
Net income	$0.64	$0.07	$0.67	$0.45

Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	$0.63	$0.10	$0.67	$0.47
Loss from discontinued operations, net of tax	$0.00	$(0.03)	$(0.01)	$(0.03)
Net income	$0.63	$0.07	$0.66	$0.44
Weighted average shares outstanding:				
Basic	30,647	30,089	30,596	30,029
Effect of dilutive stock based compensation	781	867	802	841
Diluted	31,428	30,956	31,398	30,870

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,	
	2014	2013	2014	2013
Net income	$19,667	$2,274	$20,649	$13,442
Other comprehensive income/(loss):				
Foreign currency translation adjustments	885	952	562	(2,884)
Interest rate swap agreement, net of tax of $21, $74, $35 and $105 at respective dates	39	139	66	195
Pension plan amortization of net actuarial loss and prior service cost, net of tax of $70, $115, $140 and $231 at respective dates	145	232	290	464
Comprehensive income	$20,736	$3,597	$21,567	$11,217

See accompanying notes to unaudited consolidated financial statements.

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

	Six months ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$20,649	$13,442
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	11,849	10,886
Non-cash deferred revenue	(598)	(10,539)
Gain on sale of assets	(4)	(4,137)
Increase in inventory reserve	2,691	951
Stock based compensation included in net income	1,948	1,242
Deferred income tax provision	(10,838)	914
Losses in partially-owned affiliates	4,618	1,149
Other	614	507
Changes in assets and liabilities:		
Trade receivables	2,911	(290)
Inventories	(16,462)	(27,637)
Prepaid expenses and other current assets	(3,669)	(1,494)
Accounts payable and other current liabilities	1,429	8,284
Deferred revenue	1,631	10,335
Other non-current assets and liabilities	(3,127)	3,027
Discontinued operations:		
Net cash used in discontinued operations	(1,112)	(461)
Net cash provided by operating activities	12,530	6,179
Cash flows from investing activities:		
Capital expenditures	(9,439)	(35,375)
Proceeds from sale of assets	1,279	1,909
Acquisition of business, net of cash acquired	(2,426)	-
Advances to partially-owned affiliates	(1,404)	(441)
Net cash used in investing activities	(11,990)	(33,907)
Cash flows from financing activities:		
Long-term debt activity:		
Borrowings	18,750	37,500
Repayments	(24,000)	(14,500)
Proceeds from stock options exercised	1,718	1,428
Other	-	(302)
Net cash (used in)/provided by financing activities	(3,532)	24,126
Effect of exchange rate changes on cash and cash equivalents	(303)	(402)
Net decrease in cash and cash equivalents	(3,295)	(4,004)
Cash and cash equivalents at beginning of period	22,745	23,551

Cash and cash equivalents at end of period	$19,450	$19,547

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, 2013.

The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results expected for the full year.

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

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

(2) Impact of Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 that 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. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued ASU 2014-08, which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization's operations and financial results should be presented as discontinued operations. Additionally, the ASU requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. This update is effective in the first quarter of 2015. This pronouncement will not have an impact on the Company’s financial position or results of operations.

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(3) Acquisition

On May 23, 2014, the Company purchased the remaining 49% interest in Zenara. The Company negotiated an accelerated purchase of the business, which was contractually required to be completed in 2016 at a price determined by the financial performance of the Zenara business. The purchase price negotiated for the 49% was $2,680. Management believed it was economically beneficial to take control of the business at this time to accelerate the execution of the Company's strategy for the business. The Company recorded $655 for the identifiable net liabilities of Zenara at fair market value, intangible assets of $4,900, a deferred tax liability related to the intangible asset of $1,666 and goodwill of $9,715. These amounts are estimates and are subject to change upon the finalization of the valuation of Zenara. The Company incurred acquisition related costs of $310 and $451 for the three and six months ended June 30, 2014, respectively. These costs were expensed and included in Selling, general and administrative expenses in the Company's income statement. Refer to Note 6 for further disclosures.

(4) Net Inventories

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

Net inventories at June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014	December 31, 2013
Finished goods	$27,433	$ 29,797
Work in process	43,949	31,990
Raw materials	26,025	22,580
Supplies	5,599	5,598
Total	$103,006	$ 89,965

(5) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2014, is as follows:

Balance as of December 31, 2013	$38,670
Acquisition of business	9,715
Translation effect	(574)
Balance as of June 30, 2014	$47,811

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

(5) Goodwill and Intangible Assets (continued)

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

		As of June 30, 2014		
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology-based intangibles	10 - 20 years	$8,916	$ (922)	$ 7,994
Customer-related intangibles	10 - 15 years	806	(234)	572
		$9,722	$ (1,156)	$ 8,566

		As of December 31, 2013		
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology-based intangibles	20 years	$4,192	$ (786)	$ 3,406
Customer-related intangibles	10 - 15 years	814	(209)	605
		$5,006	$ (995)	$ 4,011

The change in the gross carrying amount is related to the acquisition of the remaining 49% of Zenara and the impact of foreign currency translation. The acquisition resulted in the recognition of technology- based intangibles of $4,900 in the second quarter of 2014.

Amortization expense was $106 and $172 for the three and six months ended June 30, 2014, respectively. Amortization expense was $63 and $127 for the three and six months ended June 30, 2013, respectively.

Amortization expense related to current intangible assets is expected to be approximately $542 for 2014 and $741 for each of the next four years.

(6) Partially-Owned Affiliates

On May 23, 2014, the Company negotiated an accelerated purchase of Zenara, which was contractually required to be completed in 2016 at a price determined by the financial performance of the business. The purchase price negotiated for the remaining 49% was $2,680. Management believed it was economically beneficial to take control of this business at this time to accelerate the execution of the Company's strategy for this business. The Company incurred acquisition related costs of $310 and $451 for the three and six months ended June 30, 2014, respectively.

The Company was required to perform a fair market value assessment immediately before acquisition of its existing 51% ownership interest. This resulted in the recognition of a gain of $278 using a discounted cash flow model with inputs developed by Company management. The Company also recorded an expense of $4,400 representing the release of foreign currency translation adjustments previously recorded in "other comprehensive income" that are now required to be recorded to the income statement as a result of the removal of the investment in partially-owned affiliate due to the full consolidation of Zenara as of the acquisition date. The net amount of these items totaled a loss of $4,122 and is recorded in "Equity in losses of partially-owned affiliates" on the Company's income statement for the three and six months ended June 30, 2014. The Company advanced $1,282 to Zenara through the purchase date of the remaining 49%.

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(6) Partially-Owned Affiliates (continued)

The Company recorded a loss of $112 and $458 for the three and six months ended June 30, 2014, respectively, related to Zenara and reflects activity through the date the remaining 49% was purchased. These amounts include amortization expense of $125 and $333, for the three and six months ended June 30, 2014, respectively. The Company recorded a loss of $537 and $975 for the three and six months ended June 30, 2013, respectively. These amounts include amortization expense of $230 and $468, for the three and six months ended June 30, 2013, respectively.

Zenara's results from the purchase date through June 30, 2014 are reflected in the consolidated financial statements of the Company and were not material.

Prior to May 23, 2014, partially-owned affiliates consisted primarily of the Company's 51% equity interest in Zenara, and two smaller joint ventures located in Europe and Brazil. The Company's financial statements reflect its share of Zenara results through the date the Company purchased the remaining 49% interest at which time Zenara became a wholly-owned subsidiary of the Company and included in the consolidated financial statements. Investments in and advances to partially-owned affiliates also includes a loss of $38 for the three and six months ended June 30, 2014, related to investments in European and Brazilian joint ventures. The Company recorded a loss of $131 and $174 for the three and six months ended June 30, 2013, respectively, related to its European joint venture. In the first six months of 2014 and 2013, the Company advanced $122 and $141 to a European joint venture, respectively.

(7) Income Taxes

The provision for income taxes for the three and six months ended June 30, 2014 was a benefit of $9,415 and $8,961, respectively. For the three and six months ended June 30, 2014, the effective tax rate includes benefits of $14,161 and $14,359, respectively, for a partial reversal of a deferred tax valuation allowance against domestic federal foreign tax credits. Excluding the benefit related to the reversal of the deferred tax valuation allowance and the loss on the Zenara transaction of $4,122 included within Income before income taxes, the effective tax rates were 32.7% and 33.4% for the three and six months ended June 30, 2014, respectively. During the second quarter of 2014, the Company received updated customer projections that impact current and future year's income in an amount and type that support increased utilization of certain foreign tax credits. Accordingly, during the second quarter of 2014, the Company reduced the valuation allowance against foreign tax credits by $13,041 due to the expected impact in future years of these updated customer projections. Additionally, approximately $3,000 of valuation allowance will be released throughout the remainder of the current year due to these updated customer projections, after which approximately $10,000 of valuation allowance will remain against foreign tax credits. The Company continues to assess the need for a valuation allowance against a portion of its remaining foreign tax credits. It is possible that new customer business or other changes in the amount or type of future U.S. income could result in the release in future periods of some portion of additional domestic valuation allowance attributable to these remaining foreign tax credits before they expire, or the establishment of a reserve against certain foreign tax credits for which the Company has no current reserves. The Company has approximately $14,000, $13,000 and $4,000 of foreign tax credits expiring in 2015, 2016 and 2018 respectively.

(7) Income Taxes (continued)

In 2009, a subsidiary of the Company was examined by a European tax authority, which challenged the business purpose of the deductibility of certain intercompany transactions from 2003 and issued formal assessments against the subsidiary. In 2010, the Company filed to litigate the matter. Although the Company has had several favorable rulings in the courts, they have been appealed or are subject to appeal. For the three months ended June 30, 2014, the Company increased its reserve for unrecognized tax benefits for this matter by $116 including $61 of foreign currency translation. Any ruling reached by any of the courts may be subject to further appeals, and as such the final date of resolution of this matter is uncertain at this time. However, within the next twelve months it is possible that factors such as new developments, settlements or judgments may require the Company to increase its reserve for unrecognized tax benefits by up to approximately $8,000 or decrease its reserve by approximately $6,600, including penalties and interest. If the court rules against the Company in subsequent court proceedings, a payment for the amount of the judgment, including any penalties and interest, will be due immediately while the case is appealed. The Company has analyzed these issues in accordance with guidance on uncertain tax positions and believes at this time that its reserves are adequate, and intends to vigorously defend itself.

(8) Derivatives and Hedging Activities

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

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

Foreign Currency Forward Contracts

The Company 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 these 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.

For derivatives that are designated for hedge accounting treatment, changes in the fair value are not included in earnings but are included in accumulated other comprehensive income (“AOCI”). Changes in the fair value of the derivative instruments reported in AOCI are recorded into earnings as a component of product revenue or expense, as applicable, when the forecasted transaction occurs. Any ineffective portion of hedges is recognized in earnings.

None of the foreign currency forward contracts entered into during the six months ended June 30, 2014 were designated for hedge accounting treatment. There were no foreign currency forward contracts entered into or outstanding at June 30, 2013.

(8) Derivatives and Hedging Activities (continued)

The fair value of the Company’s foreign exchange forward contracts was a loss of $442 at June 30, 2014 and is recorded in “Accrued expenses and other current liabilities” and “Other revenue.”

The notional amounts of the Company’s foreign exchange forward contracts were $18,431 at June 30, 2014. There were no foreign currency forward contracts outstanding at December 31, 2013. 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.

Interest Rate Swap

The Company entered into an interest rate swap in March 2012 to reduce the impact of changes in interest rates on its floating rate debt through September 2015. The swap is a contract to exchange floating rate for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional debt amount.

The swap contract outstanding at June 30, 2014 has been designated as a cash flow hedge and, accordingly, changes in the fair value of this derivative are not recorded in earnings but are recorded each period in AOCI and reclassified into earnings as interest expense in the same period during which the hedged transaction affects earnings. The ineffective portion of all hedges is recognized in earnings and has been immaterial to the Company's financial results.

As of June 30, 2014, the interest rate swap had a notional value of $60,000, at a fixed rate of 0.92%. The fair value of this swap is based on quoted market prices and was in a loss position of $515 and $616 at June 30, 2014 and December 31, 2013, respectively. This loss is reflected in the Company’s balance sheet under the caption “Accrued expenses and other current liabilities.”

Assuming current market conditions continue, a loss of $441 is expected to be reclassed out of AOCI into earnings within the next twelve months.

(9) Fair Value Measurements

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

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

(9) Fair Value Measurements (continued)

The following tables provide the assets and liabilities carried at fair value, measured on a recurring basis, as of June 30, 2014 and December 31, 2013:

		Fair Value Measurements at June 30, 2014 using:		
Description	Total	Level 1	Level 2	Level 3
Foreign currency forwards, liabilities	$(442)	$-	$(442)	$ -
Interest rate swap, liabilities	$(515)	-	(515)	-
Total	$(957)	$-	$(957)	$ -

		Fair Value Measurements at December 31, 2013 using:		
Description	Total	Level 1	Level 2	Level 3
Interest rate swap, liabilities	$(616)	$-	$(616)	$ -
Total	$(616)	$-	$(616)	$ -

The fair value of the interest rate swap is estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rate and the expected cash flows at current market interest rates using observable benchmarks for the LIBOR forward rates at the end of the period.

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

Based on these inputs, the Company’s interest rate swap and foreign currency forward contracts are classified within Level 2 of the valuation hierarchy.

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. The carrying amount of the Company’s long-term debt approximates fair value because the debt is based on current rates at which the Company could borrow funds with similar maturities.

(in thousands, except share data)

(10) Accumulated Other Comprehensive Income/(Loss)

The following table provides the changes in AOCI by component, net of tax, for the three months ended June 30, 2014 and 2013:

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of March 31, 2014	$ 9,667	$ (369)	$(28,411)	$(19,113)
Other comprehensive loss before reclassifications	(3,515)	(36)	-	(3,551)
Amounts reclassified from accumulated other comprehensive loss	4,400	75	145	4,620
Net current-period other comprehensive income	885	39	145	1,069
Balance as of June 30, 2014	$ 10,552	$ (330)	$(28,266)	$(18,044)

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of March 31, 2013	$ 1,341	$ (544)	$(38,436)	$(37,639)
Other comprehensive income before reclassifications	952	68	-	1,020
Amounts reclassified from accumulated other comprehensive loss	-	71	232	303
Net current-period other comprehensive income	952	139	232	1,323
Balance as of June 30, 2013	$ 2,293	$ (405)	$(38,204)	$(36,316)

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(10) Accumulated Other Comprehensive Income/(Loss) (continued)

The following table provides the changes in AOCI by component, net of tax, for the six months ended June 30, 2014 and 2013:

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of December 31, 2013	$ 9,990	$ (396)	$(28,556)	$(18,962)
Other comprehensive loss before reclassifications	(3,838)	(83)	-	(3,921)
Amounts reclassified from accumulated other comprehensive loss	4,400	149	290	4,839
Net current-period other comprehensive income	562	66	290	918
Balance as of June 30, 2014	$ 10,552	$ (330)	$(28,266)	$(18,044)

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of December 31, 2012	$ 5,177	$ (600)	$(38,668)	$(34,091)
Other comprehensive (loss)/income before reclassifications	(2,884)	55	-	(2,829)
Amounts reclassified from accumulated other comprehensive loss	-	140	464	604
Net current-period other comprehensive (loss)/income	(2,884)	195	464	(2,225)
Balance as of June 30, 2013	$ 2,293	$ (405)	$(38,204)	$(36,316)

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(10) Accumulated Other Comprehensive Income/(Loss) (continued)

The following table provides the reclassifications out of AOCI by component for the three and six months ended June 30, 2014 and 2013:

Details about AOCI Components	Amounts Reclassified from AOCI for the three months ended June 30, 2014	Amounts Reclassified from AOCI for the six months ended June 30, 2014	Affected Line Item in the Consolidated Income Statement
Losses on cash flow hedge:			
Interest rate swap	$ (116)	$ (230)	Interest expense, net