

CAMBREX CORP  
Form 10-Q  
May 03, 2013

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

FORM 10-Q

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

for the quarterly period ended March 31, 2013

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 incorporation or (I.R.S. Employer Identification No.)  
organization)

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

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

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

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

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

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

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(Do not check if a smaller reporting company)

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

As of April 30, 2013, there were 30,031,706 shares outstanding of the registrant's Common Stock, \$.10 par value.

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CAMBREX CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This document contains and incorporates by reference forward-looking statements including statements regarding expected performance, especially the Company's estimate relating to the amount and timing of required capital expenditures under its Phase 3 supply agreement signed during 2012, the Company's belief that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company, as well as other statements relating to expectations with respect to sales, research and development expenditures, earnings per share, capital expenditures, the outcome of pending litigation (including environmental proceedings and remediation investigations) and related estimates of potential liability, acquisitions, divestitures, collaborations or other expansion opportunities. These statements may be identified by the fact that they use words such as "may," "will," "could," "should," "would," "expect," "anticipate," "intend," "estimate," 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 contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2012, captioned "Risk Factors," or otherwise described in the Company's filings with the Securities and Exchange Commission, as well as any cautionary language in the Company's Annual Report on Form 10-K for the period ended December 31, 2012, 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 disclosed in the Company's public filings, changes in foreign exchange rates, uncollectible receivables, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, and the Company's ability to receive regulatory approvals for its products, as well as risks relating to a Phase 3 supply agreement signed during 2012 including that the Company will expend significant resources to expand its manufacturing facilities without any assurance that the new agreement will generate any revenue beyond that would be earned under termination provisions within the agreement, that the customer's product candidate will be successful in Phase 3 trials or obtain the necessary regulatory approvals to commercialize the product candidate, that the customer's Phase 3 program will not be terminated early, that anticipated quantities will not be meaningfully reduced, that the planned Phase 3 and pre-launch activities will proceed on the timeline anticipated, if at all, that the Company's expansion will proceed on the anticipated timeline without disruption to existing customers or its new customer and without disruption to the Company's and its customers' ability to meet key product delivery milestones.

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

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## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets  
(in thousands, except share data)

	March 31, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$31,877	\$ 23,551
Trade receivables, net	41,070	43,094
Inventories, net	74,066	71,221
Prepaid expenses and other current assets	8,727	6,104
Total current assets	155,740	143,970
Property, plant and equipment, net	155,735	151,815
Goodwill	36,426	37,312
Intangible assets, net	3,910	4,091
Investments in and advances to partially-owned affiliates	15,241	15,094
Deferred income taxes	37,588	39,262
Other non-current assets	5,878	2,924
Total assets	\$410,518	\$ 394,468
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$25,725	\$ 27,612
Deferred revenue	12,055	11,570
Accrued expenses and other current liabilities	39,414	43,844
Total current liabilities	77,194	83,026
Long-term debt	73,000	64,000
Deferred income taxes	19,838	18,577
Accrued pension benefits	54,630	55,373
Other non-current liabilities	14,129	10,195
Total liabilities	238,791	231,171
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued 31,816,829 and 31,704,230 shares at respective dates	3,181	3,169
Additional paid-in capital	105,023	104,173
Retained earnings	116,431	105,263
Treasury stock, at cost, 1,790,873 and 1,795,082 shares at respective dates	(15,269 )	(15,217 )
Accumulated other comprehensive loss	(37,639 )	(34,091 )
Total stockholders' equity	171,727	163,297
Total liabilities and stockholders' equity	\$410,518	\$ 394,468

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 March 31,	
	2013	2012
Gross sales	\$74,581	\$70,559
Commissions, allowances and rebates	163	535
Net sales	74,418	70,024
Other	467	204
Net revenues	74,885	70,228
Cost of goods sold	50,136	47,800
Gross profit	24,749	22,428
Operating expenses:		
Selling, general and administrative expenses	11,104	9,960
Research and development expenses	2,194	2,358
Total operating expenses	13,298	12,318
Gain on sale of asset	4,680	-
Operating profit	16,131	10,110
Other expenses/(income):		
Interest expense, net	495	651
Other (income)/expenses, net	(32 )	8
Equity in losses of partially-owned affiliates	481	208
Income before income taxes	15,187	9,243
Provision for income taxes	3,762	2,205
Income from continuing operations	11,425	7,038
Loss from discontinued operations, net of tax	(257 )	-
Net income	\$11,168	\$7,038
Basic earnings/(loss) per share of common stock:		
Income from continuing operations	\$0.38	\$0.24
Loss from discontinued operations, net of tax	\$(0.01 )	\$-
Net income	\$0.37	\$0.24

Diluted earnings/(loss) per share of common stock:		
Income from continuing operations	\$0.37	\$0.24
Loss from discontinued operations, net of tax	\$(0.01 )	\$-
Net income	\$0.36	\$0.24
Weighted average shares outstanding:		
Basic	29,970	29,602
Effect of dilutive stock based compensation	818	284
Diluted	30,788	29,886

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 March 31,	
	2013	2012
Net income	\$11,168	\$7,038
Other comprehensive income:		
Foreign currency translation adjustments	(3,836 )	5,973
Foreign currency forward contracts, net of tax of \$0 and \$73 at respective dates	-	(165 )
Interest rate swap agreement, net of tax of \$31 and \$0 at respective dates	56	(380 )
Pension plan amortization of net actuarial loss and prior service cost, net of tax of \$116 and \$13 at respective dates	232	299
Comprehensive income	\$7,620	\$12,765

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$11,168	\$7,038
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	5,333	5,486
Gain on sale of assets	(4,603 )	-
Increase in inventory reserve	1,284	1,219
Stock based compensation included in net income	493	357
Deferred income tax provision	1,918	(95 )
Equity in losses of partially-owned affiliates	481	208
Other	266	252
Changes in assets and liabilities:		
Trade receivables	1,547	(1,991 )
Inventories	(5,181 )	(4,886 )
Prepaid expenses and other current assets	(2,142 )	625
Accounts payable and other current liabilities	(2,052 )	(1,416 )
Deferred revenue	485	416
Other non-current assets and liabilities	4,696	(1,367 )
Discontinued operations:		
Net cash used in discontinued operations	(45 )	(1,080 )
Net cash provided by operating activities	13,648	4,766
Cash flows from investing activities:		
Capital expenditures	(15,577 )	(2,616 )
Proceeds from sale of assets	1,909	-
Advances to partially-owned affiliates	(441 )	-
Net cash used in investing activities	(14,109 )	(2,616 )
Cash flows from financing activities:		
Long-term debt activity:		
Borrowings	12,500	-
Repayments	(3,500 )	(14,000 )
Proceeds from stock options exercised	619	-
Other	(302 )	64
Net cash provided by/(used in) financing activities	9,317	(13,936 )
Effect of exchange rate changes on cash and cash equivalents	(530 )	642
Net increase/(decrease) in cash and cash equivalents	8,326	(11,144 )
Cash and cash equivalents at beginning of period	23,551	31,921
Cash and cash equivalents at end of period	\$31,877	\$20,777

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, 2012.

The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results expected for the full year.

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

## (2) Impact of Recently Issued Accounting Pronouncements

## Comprehensive Income

In February 2012, the FASB issued "Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI")" which improves the reporting of reclassifications out of AOCI. The amendment requires an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income. For other amounts not required to be reclassified to net income, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about these amounts. This amendment became effective January 1, 2013 and the effect of adopting this updated guidance did not have an impact on the Company's financial position or result of operations.

## (3) Net Inventories

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

Net inventories at March 31, 2013 and December 31, 2012 consist of the following:

	March 31, 2013	December 31, 2012
Finished goods	\$ 27,660	\$ 30,262
Work in process	28,406	23,533
Raw materials	12,940	12,352
Supplies	5,060	5,074
Total	\$ 74,066	\$ 71,221



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## CAMBREX CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

## (4) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the three months ended March 31, 2013, is as follows:

Balance as of December 31, 2012	\$37,312
Translation effect	(886 )
Balance as of March 31, 2013	\$36,426

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

	Amortization Period	As of March 31, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology-based intangibles	20 years	\$ 3,894	\$ (584 )	\$ 3,310
Customer-related intangibles	10 - 15 years	755	(155 )	600
		\$ 4,649	\$ (739 )	\$ 3,910

	Amortization Period	As of December 31, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology-based intangibles	20 years	\$ 4,011	\$ (552 )	\$ 3,459
Customer-related intangibles	10 - 15 years	778	(146 )	632
		\$ 4,789	\$ (698 )	\$ 4,091

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

Amortization expense was \$64 and \$63 for the three months ended March 31, 2013 and 2012, respectively.

Amortization expense related to current intangible assets is expected to be approximately \$250 for 2013 and for each of the next four years.

## (5) Investments in and Advances to Partially-Owned Affiliates

Investments in and advances to partially-owned affiliates consist primarily of the Company's equity interest in Zenara Pharma ("Zenara"). The Company recorded a loss of \$438 and \$485 for the three months ended March 31, 2013 and 2012, respectively, related to Zenara. These amounts include amortization expense of \$238 and \$256, for the three months ended March 31, 2013 and 2012, respectively. In the first three months of 2013, the Company advanced \$300 to Zenara.



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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(5) Investments in and Advances to Partially-Owned Affiliates (continued)

Investments in and advances to partially-owned affiliates also includes a loss of \$43 and income of \$277 for the three months ended March 31, 2013 and 2012, respectively, related to an investment in a European joint venture. In the first three months of 2013, the Company advanced \$141 to the European joint venture.

(6) Income Taxes

The provision for income taxes for the three months ended March 31, 2013 totaled \$3,762 and resulted in an effective tax rate of 24.8%. For the three months ended March 31, 2013 the effective tax rate includes a benefit of approximately \$1,300 due to changes in tax laws and expense of approximately \$1,500 related to the sale of an office building.

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 two formal assessments against the subsidiary. In 2010, the Company filed appeals to litigate the matter. The first court date related to this matter was held in 2011, after which the court issued its ruling in favor of the Company. The tax authorities appealed this ruling and the appeals court also ruled in the Company's favor in 2012, however this ruling only applies to the smaller of the two assessments. The first court date for the larger of the two assessments was held in September 2012, and the Company has not yet received the court's ruling. For the three months ended March 31, 2013, the Company decreased its reserve for unrecognized tax benefits for this matter by \$139, including \$177 of foreign currency translation. The Company still believes this dispute to be in the early stages of the judicial process since any ruling reached by any of the courts may be 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 \$6,000, including penalties and interest. If the court rules against the Company in subsequent court proceedings, a payment for a substantial portion 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.

(7) Derivatives and Hedging Activities

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

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

Foreign Currency Forward Contracts



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

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(7) Derivatives and Hedging Activities (continued)

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

In the past, all foreign currency forward contracts had been designated as cash flow hedges and, accordingly, changes in the fair value of these derivatives were not included in earnings but were included in AOCI. Changes in the fair value of the derivative instruments reported in AOCI were recorded into earnings as a component of product revenue or expense, as applicable, when the forecasted transaction occurred. The ineffective portion of all hedges was recognized in current-period earnings and was immaterial to the Company's financial results.

There were no foreign currency forward contracts outstanding at March 31, 2013 and December 31, 2012.

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. 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 March 31, 2013 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 March 31, 2013, the interest rate swap had a notional value of \$60,000, at a fixed rate of 0.92%, maturing in September 2015. The fair value of this swap is based on quoted market prices and was in a loss position of \$843 and \$930 at March 31, 2013 and December 31, 2012, 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 \$405 is expected to be reclassified out of AOCI into earnings within the next twelve months.

(8) Fair Value Measurements

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



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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(8) Fair Value Measurements (continued)

The following tables provide the assets and liabilities carried at fair value, measured on a recurring basis, as of March 31, 2013 and December 31, 2012:

Fair Value Measurements at March 31, 2013 using:

Description	Fair Value Measurements at March 31, 2013 using:		
	Level Total 1	Level 2	Level 3
Interest rate swap, liabilities			