CAMBREX CORP
Form 10-Q
July 28, 2016

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, 2016

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 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 . 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 (Do not check if a smaller reporting company) 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 July 27, 2016, there were 32,147,275 shares outstanding of the registrant’s Common Stock, $.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

Table of Contents

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, 2015, 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.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,473	$ 43,974
Trade receivables, net	67,692	90,920
Other receivables	10,828	7,278
Inventories, net	140,136	109,920
Prepaid expenses and other current assets	8,778	7,187
Total current assets	279,907	259,279
Property, plant and equipment, net	204,178	186,487
Goodwill	32,552	32,063
Intangible assets, net	7,469	6,691
Deferred income taxes	9,446	19,259
Other non-current assets	3,323	1,760
Total assets	$ 536,875	$ 505,539
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 36,639	$ 39,257
Deferred revenue and advance payments	7,467	16,298
Accrued expenses and other current liabilities	36,608	44,247
Short-term debt	-	30,000
Total current liabilities	80,714	129,802
Advance payments	39,000	-
Deferred income taxes	7,697	7,735
Accrued pension benefits	41,724	42,661
Other non-current liabilities	14,689	14,506
Total liabilities	183,824	194,704

Stockholders' equity:		
Common stock, $.10 par value; authorized 100,000,000, issued 33,738,404 and 33,528,915 shares at respective dates	3,374	3,353
Additional paid-in capital	136,830	131,980
Retained earnings	280,774	245,698
Treasury stock, at cost, 1,594,549 and 1,729,727 shares at respective dates	(13,594)	(14,747)
Accumulated other comprehensive loss	(54,333)	(55,449)
Total stockholders' equity	353,051	310,835
Total liabilities and stockholders' equity	$ 536,875	$ 505,539

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Income Statements

(unaudited – in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
Gross sales	$119,054	$106,379	$212,989	$184,563
Commissions, allowances and rebates	833	365	1,336	816
Net sales	118,221	106,014	211,653	183,747
Other revenue	417	621	1,726	413
Net revenues	118,638	106,635	213,379	184,160
Cost of goods sold	70,081	60,690	125,923	109,136
Gross profit	48,557	45,945	87,456	75,024
Operating expenses:				
Selling, general and administrative expenses	13,607	14,078	27,652	27,829
Research and development expenses	4,125	2,703	7,603	5,358
Total operating expenses	17,732	16,781	35,255	33,187
Operating profit	30,825	29,164	52,201	41,837
Other expenses/(income):				
Interest expense/(income), net	46	474	(9)	950
Other expenses/(income), net	180	(232)	214	(170)
Income before income taxes	30,599	28,922	51,996	41,057
Provision for income taxes	9,789	9,472	16,341	13,239
Income from continuing operations	20,810	19,450	35,655	27,818
(Loss)/income from discontinued operations, net of tax	(316)	213	(579)	(162)
Net income	$20,494	$19,663	$35,076	$27,656

Basic earnings/(loss) per share of common stock:				
Income from continuing operations	$0.65	$0.62	$1.12	$0.89
(Loss)/income from discontinued operations, net of tax	$(0.01)	$0.01	$(0.02)	$(0.01)
Net income	$0.64	$0.63	$1.10	$0.88
Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	$0.63	$0.60	$1.09	$0.86
(Loss)/income from discontinued operations, net of tax	$(0.01)	$0.01	$(0.02)	$0.00
Net income	$0.62	$0.61	$1.07	$0.86
Weighted average shares outstanding:				
Basic	32,063	31,344	31,975	31,271
Effect of dilutive stock based compensation	863	1,096	873	1,038
Diluted	32,926	32,440	32,848	32,309

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited – in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	$20,494	$19,663	$35,076	$27,656
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(6,383)	6,378	712	(11,605)
Interest rate swap agreement, net of tax of $0, $37, $0 and $67 at respective dates	-	69	-	123
Pension plan amortization of net actuarial loss and prior service cost, net of tax of $100, $108, $200 and $216 at respective dates	202	231	404	461
Comprehensive income	$14,313	$26,341	$36,192	$16,635

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, 2016	2015
Cash flows from operating activities:		
Net income	$35,076	$27,656
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	11,274	10,685
Non-cash deferred revenue	(2,616)	(12,197)
Increase in inventory reserve	5,089	2,116
Stock based compensation	3,300	2,404
Deferred income tax provision	8,872	6,434
Other	306	(92)
Changes in assets and liabilities:		
Trade receivables	15,022	29,618
Inventories	(35,021)	(46,499)
Prepaid expenses and other current assets	(5,461)	(1,151)
Accounts payable and other current liabilities	(12,435)	2,675
Deferred revenue and advance payments	40,758	22,529
Other non-current assets and liabilities	652	(3,311)
Discontinued operations:		
Net cash used in discontinued operations	(195)	(663)
Net cash provided by operating activities	64,621	40,204
Cash flows from investing activities:		
Capital expenditures	(26,553)	(25,556)
Proceeds from sale of assets	13	2,102
Other	-	(56)
Net cash used in investing activities	(26,540)	(23,510)
Cash flows from financing activities:		
Repayment of debt	(30,000)	-
Proceeds from stock options exercised	1,956	1,895
Debt issuance costs	(2,515)	-
Other	770	299
Net cash (used in)/provided by financing activities	(29,789)	2,194
Effect of exchange rate changes on cash and cash equivalents	207	(1,808)
Net increase in cash and cash equivalents	8,499	17,080

Cash and cash equivalents at beginning of period	43,974	45,518
Cash and cash equivalents at end of period	$52,473	$62,598

See accompanying notes to unaudited consolidated financial statements.

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, 2015.

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

Simplification of Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09 which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and classification in the statement of cash flows. 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.

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 except short-term leases. On the income statement, leases will be classified as operating or finance leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the guidance and transition method to determine the impact, if any, it will have on its consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

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. In March 2016, the FASB issued ASU 2016-08 which further clarifies the guidance on the principal versus agent considerations within ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. In May 2016, the FASB issued ASU 2016-12 to improve revenue recognition in the areas of collectability, presentation of sales tax and other similar taxes collected from customers, noncash consideration, contract modifications and completed contracts at transition. This update also amends the disclosure requirements within ASU 2014-09 for entities that retrospectively apply the guidance. The latest amendments are intended to address implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group, and provide additional practical expedients. These standards are effective for fiscal years beginning after December 15, 2017, 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.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11 which requires that inventory be measured at the lower of cost and net realizable value, which eliminates the other two options that currently exist for market, replacement cost and net realizable value less an approximately normal profit margin. 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.

(3) Net Inventories

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

Net inventories consist of the following:

	June 30, 2016	**December 31, 2015**
Finished goods	$34,956	$32,550
Work in process	67,375	41,358
Raw materials	32,105	30,830
Supplies	5,700	5,182
Total	$140,136	$109,920

(4) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2016, is as follows:

Balance as of December 31, 2015	$32,063
Translation effect	489
Balance as of June 30, 2016	$32,552

8

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(4) Goodwill and Intangible Assets (continued)

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

	As of June 30, 2016			
	Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	3 - 7	$5,258	$ (484)	$ 4,774
Technology-based intangibles	20	3,375	(1,055)	2,320
Customer-related intangibles	10 - 15	655	(280)	375
		$9,288	$ (1,819)	$ 7,469

	As of December 31, 2015			
	Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	3 - 7	$4,147	$ (204)	$ 3,943
Technology-based intangibles	20	3,310	(952)	2,358
Customer-related intangibles	10 - 15	642	(252)	390
		$8,099	$ (1,408)	$ 6,691

The change in the gross carrying amount is due to additions and the impact of foreign currency translation. Beginning in 2014, the Company began implementing a new enterprise resource planning system, as such, $1,111 has been capitalized and classified as internal-use software during the six months ended June 30, 2016.

Amortization expense was $211 and $387 for the three and six months ended June 30, 2016, respectively. Amortization expense was $166 and $335 for the three and six months ended June 30, 2015, respectively.

Amortization expense related to intangible assets is expected to be approximately $871 for 2016, $1,030 for 2017 and 2018, $1,001 for 2019, and $969 for 2020.

(5) Restructuring Charges

In October 2015, the Board of Directors of the Company recommended that management evaluate strategic alternatives for Zenara due to a change in focus on higher growth initiatives as well as to reduce attention required by senior management to operate Zenara.

As a result of that evaluation, Cambrex management, with Board authority, committed to a plan to sell Zenara. The immaterial assets and liabilities of Zenara are included in “Prepaid expenses and other current assets” and “Accrued expenses and other current liabilities” on the Company’s balance sheet for all periods presented. Restructuring expenses of $154 and $444 have been included in “Selling, general and administrative expenses” for the three and six months ended June 30, 2016, respectively.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(6) Income Taxes

The tax provision from continuing operations for the three and six months ended June 30, 2016 was expense of $9,789 and $16,341, respectively, compared to $9,472 and $13,239 for the three and six months ended June 30, 2015, respectively. The effective tax rate for the three and six months ended June 30, 2016 was 32.0% and 31.4%, respectively, compared to 32.8% and 32.2% for the three and six months ended June 30, 2015, respectively.

(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.

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, 2016 and 2015 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were $22,768 and $9,322 at June 30, 2016 and December 31, 2015, 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 loss of $148 at June 30, 2016 and is recorded in "Other receivables" on the balance sheet and "Other revenue" on the income statement. The fair value of the Company's foreign exchange forward contracts outstanding was immaterial at December 31, 2015.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(8) Fair Value Measurements

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

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of June 30, 2016. The amounts were immaterial at December 31, 2015.

		Fair Value Measurements at June 30, 2016 using:		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Foreign currency forwards, liabilities	$(148)	$-	$(148)	$ -
Total	$(148)	$-	$(148)	$ -

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.

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.

(9) Accumulated Other Comprehensive Income/(Loss)

The following tables provide the changes in AOCI by component, net of tax, for the three months ended June 30, 2016 and 2015:

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of March 31, 2016	$ (18,785)	$ -	$ (29,367)	$ (48,152)
Other comprehensive loss before reclassifications	(6,383)	-	-	(6,383)
Amounts reclassified from accumulated other comprehensive loss	-	-	202	202
Net current-period other comprehensive (loss)/income	(6,383)	-	202	(6,181)
Balance as of June 30, 2016	$ (25,168)	$ -	$ (29,165)	$ (54,333)

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of March 31, 2015	$ (29,393)	$ (139)	$(33,148)	$(62,680)
Other comprehensive income/(loss) before reclassifications	6,378	(4)	-	6,374
Amounts reclassified from accumulated other comprehensive loss	-	73	231	304
Net current-period other comprehensive income	6,378	69	231	6,678
Balance as of June 30, 2015	$ (23,015)	$ (70)	$(32,917)	$(56,002)

The following tables provide the changes in AOCI by component, net of tax, for the six months ended June 30, 2016 and 2015:

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of December 31, 2015	$ (25,880)	$ -	$(29,569)	$(55,449)
Other comprehensive income before reclassifications	712	-	-	712
Amounts reclassified from accumulated other comprehensive loss	-	-	404	404
Net current-period other comprehensive income	712	-	404	1,116
Balance as of June 30, 2016	$ (25,168)	$ -	$(29,165)	$(54,333)

Foreign	Interest Rate	Pension	Total

	Currency Translation Adjustments	Swap	Plans
Balance as of December 31, 2014	$ (11,410)	$ (193)	$(33,378