CAMBREX CORP
Form 10-Q
November 04, 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 September 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 October 31, 2016, there were 32,150,275 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, 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)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,736	$ 43,974
Trade receivables, net	37,995	90,920
Other receivables	7,381	7,278
Inventories, net	143,887	109,920
Prepaid expenses and other current assets	9,021	7,187
Total current assets	289,020	259,279
Property, plant and equipment, net	209,213	186,487
Goodwill	32,687	32,063
Intangible assets, net	7,564	6,691
Deferred income taxes	12,494	19,259
Other non-current assets	4,082	1,760
Total assets	$ 555,060	$ 505,539
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 36,776	$ 39,257
Deferred revenue and advance payments	5,230	16,298
Accrued expenses and other current liabilities	36,915	44,247
Short-term debt	-	30,000
Total current liabilities	78,921	129,802
Advance payments	39,000	-
Deferred income taxes	6,876	7,735
Accrued pension benefits	41,122	42,661
Other non-current liabilities	22,197	14,506
Total liabilities	188,116	194,704

Stockholders' equity:		
Common stock, $.10 par value; authorized 100,000,000, issued 33,744,824 and 33,528,915 shares at respective dates	3,374	3,353
Additional paid-in capital	141,068	131,980
Retained earnings	289,992	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	(53,896)	(55,449)
Total stockholders' equity	366,944	310,835
Total liabilities and stockholders' equity	$ 555,060	$ 505,539

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Income Statements

(unaudited - in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Gross sales	$99,867	$92,350	$312,856	$276,913
Commissions, allowances and rebates	565	615	1,901	1,431
Net sales	99,302	91,735	310,955	275,482
Other revenue, net	97	1,244	1,823	1,657
Net revenues	99,399	92,979	312,778	277,139
Cost of goods sold	61,797	57,299	187,720	166,435
Gross profit	37,602	35,680	125,058	110,704
Operating expenses:				
Selling, general and administrative expenses	14,950	13,989	42,602	41,818
Research and development expenses	3,193	3,672	10,796	9,030
Total operating expenses	18,143	17,661	53,398	50,848
Operating profit	19,459	18,019	71,660	59,856
Other expenses/(income):				
Interest expense, net	366	517	357	1,467
Other (income)/expenses, net	(71)	296	143	126
Income before income taxes	19,164	17,206	71,160	58,263
Provision for income taxes	5,443	5,330	21,784	18,569
Income from continuing operations	13,721	11,876	49,376	39,694
Loss from discontinued operations, net of tax	(4,503)	(129)	(5,082)	(291)
Net income	$9,218	$11,747	$44,294	$39,403
Basic earnings/(loss) per share of common stock:				

Income from continuing operations	$0.43	$0.38	$1.54	$1.27
Loss from discontinued operations, net of tax	$(0.14)	$(0.01)	$(0.16)	$(0.01)
Net income	$0.29	$0.37	$1.38	$1.26
Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	$0.42	$0.36	$1.50	$1.22
Loss from discontinued operations, net of tax	$(0.14)	$(0.00)	$(0.15)	$(0.00)
Net income	$0.28	$0.36	$1.35	$1.22
Weighted average shares outstanding:				
Basic	32,149	31,471	32,034	31,339
Effect of dilutive stock based compensation	850	1,122	871	1,089
Diluted	32,999	32,593	32,905	32,428

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited - in thousands)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	$9,218	$11,747	$44,294	$39,403
Other comprehensive income/(loss):				
Foreign currency translation adjustments	235	(1,127)	947	(12,732)
Interest rate swap agreement, net of tax of $0, $40, $0 and $107 at respective dates	-	70	-	193
Pension plan amortization of net actuarial loss and prior service cost, net of tax of $100, $108, $300 and $324 at respective dates	202	230	606	691
Comprehensive income	$9,655	$10,920	$45,847	$27,555

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Nine months ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$44,294	$39,403
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	17,717	16,320
Non-cash deferred revenue	(2,972)	(12,232)
Increase in inventory reserve	5,950	3,561
Stock based compensation	5,189	3,837
Deferred income tax provision	7,838	9,162
Other	265	(139)
Changes in assets and liabilities:		
Trade receivables	44,213	38,102
Inventories	(40,088)	(52,542)
Prepaid expenses and other current assets	(2,144)	(569)
Accounts payable and other current liabilities	(11,462)	13,842
Deferred revenue and advance payments	39,363	25,340
Other non-current assets and liabilities	(2,764)	(2,978)
Discontinued operations:		
Non-current liabilities	6,748	-
Net cash used in discontinued operations	(312)	(1,062)
Net cash provided by operating activities	111,835	80,045
Cash flows from investing activities:		
Capital expenditures	(37,706)	(39,706)
Proceeds from sale of assets	13	2,282
Other	-	(56)
Net cash used in investing activities	(37,693)	(37,480)
Cash flows from financing activities:		
Repayment of debt	(30,000)	(30,000)
Proceeds from stock options exercised	2,116	2,959
Debt issuance costs	(2,515)	-
Other	2,958	861
Net cash used in financing activities	(27,441)	(26,180)
Effect of exchange rate changes on cash and cash equivalents	61	(1,721)
Net increase in cash and cash equivalents	46,762	14,664

Cash and cash equivalents at beginning of period	43,974	45,518
Cash and cash equivalents at end of period	$90,736	$60,182

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, 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.

(2) Impact of Recently Issued Accounting Pronouncements

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. This standard is 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.

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:

	September 30, 2016	**December 31, 2015**
Finished goods	$ 37,883	$ 32,550
Work in process	67,842	41,358
Raw materials	32,341	30,830
Supplies	5,821	5,182
Total	$ 143,887	$ 109,920

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 nine months ended September 30, 2016, is as follows:

Balance as of December 31, 2015	$32,063
Translation effect	624
Balance as of September 30, 2016	$32,687

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

	As of September 30, 2016			
	Amortization Period (years)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Internal-use software	3 - 7	$ 5,566	$ (657)	$ 4,909
Technology-based intangibles	20	3,393	(1,103)	2,290
Customer-related intangibles	10 - 15	658	(293)	365
		$ 9,617	$ (2,053)	$ 7,564

	As of December 31, 2015			
	Amortization Period (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. During the nine months ended September 30, 2016, $1,419 has been capitalized and classified as internal-use software, related to the implementation of a new enterprise resource planning system.

Amortization expense was $227 and $614 for the three and nine months ended September 30, 2016, respectively. Amortization expense was $245 and $580 for the three and nine months ended September 30, 2015, respectively.

Amortization expense related to intangible assets is expected to be approximately $845 for 2016, $1,062 for 2017 through 2019, and $1,043 for 2020.

(5) Restructuring Charges

In late 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.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(5) Restructuring Charges (continued)

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. For the three and nine months ended September 30, 2016, the Company recorded a benefit of $47 and expense of $397, respectively, within “Selling, general and administrative expenses” for restructuring.

(6) Income Taxes

The tax provision from continuing operations for the three and nine months ended September 30, 2016 was expense of $5,443 and $21,784, respectively, compared to $5,330 and $18,569 for the three and nine months ended September 30, 2015, respectively. The effective tax rate for the three and nine months ended September 30, 2016 was 28.4% and 30.6%, respectively, compared to 31.0% and 31.9% for the three and nine months ended September 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 nine months ended September 30, 2016 and 2015 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were $12,544 and $9,322 at September 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 $169 at September 30, 2016 and is recorded in "Accrued expenses and other current liabilities" on the balance sheet and "Other revenue, net" 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 September 30, 2016. The amounts were immaterial at December 31, 2015.

		Fair Value Measurements at September 30, 2016 using:		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Foreign currency forwards, liabilities	$(169)	$ -	$ (169)	$ -
Total	$(169)	$ -	$ (169)	$ -

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 September 30, 2016 and 2015:

	Foreign Currency Translation Adjustments	Pension Plans	Total
Balance as of June 30, 2016	$ (25,168)	$(29,165)	$(54,333)
Other comprehensive income before reclassifications	235	-	235
Amounts reclassified from accumulated other comprehensive loss	-	202	202
Net current-period other comprehensive income	235	202	437
Balance as of September 30, 2016	$ (24,933)	$(28,963)	$(53,896)

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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 June 30, 2015	$ (23,015)	$ (70)	$(32,917)	$(56,002)
Other comprehensive loss before reclassifications	(1,127)	-	-	(1,127)
Amounts reclassified from accumulated other comprehensive loss	-	70	230	300
Net current-period other comprehensive (loss)/income	(1,127)	70	230	(827)
Balance as of September 30, 2015	$ (24,142)	$ -	$(32,687)	$(56,829)

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

	Foreign Currency Translation Adjustments	Pension Plans	Total
Balance as of December 31, 2015	$ (25,880)	$(29,569)	$(55,449)
Other comprehensive income before reclassifications	947	-	947
Amounts reclassified from accumulated other comprehensive loss	-	606	606
Net current-period other comprehensive income	947	606	1,553
Balance as of September 30, 2016	$ (24,933)	$(28,963)	$(53,896)

	Foreign	Interest	Pension	Total

	Currency Translation Adjustments	Rate Swap	Plans	
Balance as of December 31, 2014	$ (11,410)	$ (193)	$(33,378)	$(44,981)
Other comprehensive loss before reclassifications	(12,732)	(23)	-	(12,755)
Amounts reclassified from accumulated other comprehensive loss	-	216	691	907
Net current-period other comprehensive (loss)/income	(12,732)	193	691	(11,848)
Balance as of September 30, 2015	$ (24,142)	$ -	$(32,687)	$(56,829)

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

The following tables provide the reclassifications from AOCI by component for the three and nine months ended September 30, 2016 and 2015:

Details about AOCI Components	**Three months ended September 30, 2016**	**Nine months ended September 30, 2016**
Amortization of defined benefit pension items:		
Actuarial losses	$ (288)	$ (867)
Prior service costs	(14)	(39)
Total before tax	(302)	(906)
Tax benefit	100	300
Net of tax	$ (202)	$ (606)
Total reclassification for the period	$ (202)	$ (606)

Details about AOCI Components	**Three months ended September 30, 2015**	**Nine months ended September 30, 2015**
Losses on cash flow hedge:		
Interest rate swap	$ (108)	$ (333)
Tax benefit	38	117
Net of tax	$ (70)	$ (216)
Amortization of defined benefit pension items:		

Actuarial losses	$ (325)	$ (976)
Prior service costs	(13)	(39)
Total before tax	(338)	(1,015)
Tax benefit	108	324
Net of tax	$ (230)	$ (691)
Total reclassification for the period	$ (300)	$ (907)

The Company recognizes net periodic benefit cost, which includes amortization of actuarial losses and gains, and prior service costs in both “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. The interest rate swap is reflected in the Company’s income statement as “Interest expense.”

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(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 nine months ended September 30, 2016 was $13.82. The weighted-average fair value per share for the stock options granted to employees during the nine months ended September 30, 2015 was $10.59.

For the three months ended September 30, 2016 and 2015, the Company recorded $1,012 and $776, respectively, in “Selling, general and administrative expenses” for stock options. For the nine months ended September 30, 2016 and 2015, the Company recorded $2,836 and $2,114, respectively, in “Selling, general and administrative expenses” for stock options. As of September 30, 2016, the total compensation cost related to unvested stock options not yet recognized was $6,159. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.9 years.

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

Options	**Number of Shares**	**Weighted Average Exercise Price**
Outstanding at December 31, 2015	1,631,913	$ 19.17
Exercised	(44,279)	9.47
Forfeited or expired	(5,250)	16.45
Outstanding at March 31, 2016	1,582,384	19.45
Granted	20,264	45.12
Exercised	(165,210)	9.30
Outstanding at June 30, 2016	1,437,438	20.98

Exercised	(6,420)	24.84
Outstanding at September 30, 2016	1,431,018	20.96
Exercisable at September 30, 2016	520,904	$ 13.64

The aggregate intrinsic values for all stock options exercised for the three and nine months ended September 30, 2016 were $173 and $8,195, respectively. The aggregate intrinsic values for all stock options exercised for the three and nine months ended September 30, 2015 were $6,807 and $14,229, respectively. The aggregate intrinsic values for all stock options outstanding and exercisable as of September 30, 2016 were $33,636 and $16,053, respectively.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(10) Stock Based Compensation (continued)

The following table is a summary of the Company’s nonvested stock options and restricted stock:

	Nonvested Stock Options		**Nonvested Restricted Stock**	
	Number of Shares	**Weighted-Average Grant-Date Fair Value**	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested at December 31, 2015	922,658	$ 10.35	178	$ 46.91
Vested during period	(14,875)	8.11	-	-
Forfeited	(5,250)	7.76	-	-
Nonvested at March 31, 2016	902,533	10.40	178	46.91
Granted	20,264	13.82	10,640	45.12
Vested during period	(12,683)	8.49	(178)	46.91
Nonvested at June 30, 2016	910,114	10.50	10,640	45.12
Nonvested at September 30, 2016	910,114	$ 10.50	10,640	$ 45.12

For the three months ended September 30, 2016 and 2015, the Company recorded $240 and $175, respectively, in “Selling, general and administrative expenses” for restricted stock awards. For the nine months ended September 30, 2016 and 2015, the Company recorded $406 and $292, respectively, in “Selling, general and administrative expenses” for restricted stock awards. As of September 30, 2016, total compensation cost related to unvested restricted stock not yet recognized was $80. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 0.1 years.

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 September 30, 2016 and 2015, the Company recorded $637 and $482, respectively, in "Selling, general and administrative expenses" related to these PS awards. For the nine months ended September 30, 2016 and 2015, the Company recorded $1,947 and $1,431, respectively, in "Selling, general, and administrative expenses" related to PS awards.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(11) Retirement Plans

Domestic Pension Plan

The components of net periodic benefit cost for the Company's domestic pension plan (which was frozen in 2007) for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Components of net periodic benefit cost				
Interest cost	$597	$608	$1,792	$1,823
Expected return on plan assets	(662)	(718)	(1,986)	(2,153)
Recognized actuarial loss	194	202	582	608
Net periodic benefit cost	$129	$92	$388	$278

The Company's Supplemental Executive Retirement Plan (which was frozen in 2007) is non-qualified and unfunded. Net periodic benefit cost for the three months ended September 30, 2016 and 2015 were $65 and $59, respectively. Net periodic benefit cost for the nine months ended September 30, 2016 and 2015 were $194 and $177, respectively.

International Pension Plan

The components of net periodic benefit cost for the Company's international pension plan for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Components of net periodic benefit cost				
Service cost	$186	$193	$561	$585
Interest cost	186	146	560	442
Recognized actuarial loss	49	83	147	249
Amortization of prior service benefit	(1)	(2)	(3)	(5)
Net periodic benefit cost	$420	$420	$1,265	$1,271

(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.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

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.

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. These reserves were $16,127 and $8,329 at September 30, 2016 and December 31, 2015, respectively. The increase in the reserves includes adjustments to reserves of $9,036, partially offset by payments of $1,238. 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 intends to continue implementing a sampling plan at the property pursuant to the New Jersey Department of Environmental Protection’s (“NJDEP”) private oversight program. The results of the completed sampling, and any additional sampling deemed necessary, will be used to develop an estimate of the Company's future liability for remediation costs. New remedial requirements were identified during the current year which resulted in a $200 increase to the reserve. As of September 30, 2016, the Company’s reserve was $526.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

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. An update to the cost estimate for the Carlstadt site resulted in an increase of $35 in the current year. As of September 30, 2016, the Company’s reserve was $2,046.

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 interim 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 interim remedy and the extent of future action is expected to be at least partially determined by the outcome of this initial phase.

The scope of remedial activities in the initial interim remedy is currently being developed and based upon preliminary cost estimates, the Company recorded a pretax expense of $6,748 ($4,386 after tax), net of assumed insurance coverage, in the third quarter of 2016. The estimated costs for the initial interim remedy will be further developed over the next several months 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 interim 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.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

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. In the current year, the Company reserved $370 for additional USEPA oversight expenses. As of September 30, 2016, the Company’s reserve was $692 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. As it is too soon to determine whether these reports, when finalized, will result in any significant changes to the Company’s responsibilities, no change to the reserve has been made. ELT Harriman, LLC ("ELT"), the current owner of the Harriman site, 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 September 30, 2016, the Company's reserve was $3,515. 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.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

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 paid the funding requests in 2010 and 2014-2015. A final allocation of SCP Site costs (excluding Berry's Creek costs) is expected to be finalized in early 2017. As of September 30, 2016, the Company's reserve was $900, of which approximately $576 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.

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).

All cases have been resolved except for one brought by four health care insurers. In the remaining case, the District Court entered judgment after trial in 2008 against Mylan, Gyma and Cambrex in the total amount of $19,200, payable jointly and severally, and also a punitive damage award against each defendant in the amount of $16,709. In addition, at the time, the District Court ruled that the defendants were subject to a total of approximately $7,500 in prejudgment interest. The case is currently pending before the District Court following a January 2011 remand by the Court of Appeals. In July 2014, the District Court dismissed certain customers for which the plaintiffs were unable to establish jurisdiction and consequently, the plaintiffs currently have a motion pending before the District Court to reduce the damages award by a total of $9,600.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

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. In the event of a final settlement or final judgment, Cambrex expects any payment required by the Company to be made by Mylan under the indemnity described above.

(13) Discontinued Operations

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation expenses for divested sites. For the three and nine months ended September 30, 2016, the Company recorded $4,503 and $5,082, respectively, as losses from discontinued operations, net of tax. For the three and nine months ended September 30, 2015, the Company recorded $129 and $291, respectively, as losses from discontinued operations, net of tax. As of September 30, 2016 and December 31, 2015, liabilities recorded on the Company's balance sheet relating to discontinued operations were $16,127 and $8,209, respectively. At this time, we cannot reasonably estimate the period of time during which the involvement is expected to continue. Net cash used in discontinued operations for the nine months ended September 30, 2016 and 2015, were $312 and $1,062, respectively. Refer to Note 12 to the Company's consolidated financial statements for further disclosures on the Company's environmental contingencies.

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 September 30,		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Pre-tax loss from discontinued operations	$(6,928)	$(197)	$(7,819)	$(447)

Income tax benefit	2,425	68	2,737	156
Loss from discontinued operations, net of tax	$(4,503)	$(129)	$(5,082)	$(291)

(14) Subsequent Event

On October 7, 2016, the Company acquired 100% of PharmaCore Inc., a privately-owned company in High Point, North Carolina, for approximately $25,000. PharmaCore, which has been renamed Cambrex High Point, specializes in developing, manufacturing and scaling up small molecule APIs for clinical phase projects.

The Company does not expect the impact of its ownership in Cambrex High Point to be material to Cambrex's income statement for 2016. Costs related to this acquisition are recorded on the Company's income statement under the caption "Selling, general, and administrative expenses" and totaled $430 for the three and nine months ended September 30, 2016.

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 third quarter of 2016:

- Sales increased 8.1% on a reported basis compared to the third quarter of 2015. Sales, excluding currency impact, increased 7.9%.
- Gross margins decreased to 37.7% from 38.6% in the third quarter of 2015.
- Net Cash was $90,736 compared to $52,473 at June 30, 2016, an increase of $38,263 primarily due to accounts receivable collections partially offset by increased inventory production and capital spending.

Results of Operations

Comparison of Third Quarter 2016 versus Third Quarter 2015

Gross sales in the third quarter of 2016 of $99,867 were $7,517 or 8.1% higher than the third quarter of 2015. Excluding a 0.2% favorable impact of foreign exchange compared to the third quarter of 2015, sales increased 7.9% as a result of higher volumes (11.5%) partially offset by lower pricing (3.6%). Certain branded APIs and custom development products drove most of the growth.

The following table reflects sales by geographic area for the third quarters of 2016 and 2015:

	Third quarter	
	2016	**2015**
Europe	$60,903	$48,720
North America	31,414	37,441

Asia	4,645	3,390
Other	2,905	2,799
Total gross sales	$99,867	$92,350

Gross margins in the third quarter of 2016 decreased to 37.7% from 38.6% in the third quarter of 2015. Excluding an unfavorable impact of foreign currency, gross margins in the third quarter of 2016 were 38.2%. The decrease was primarily due to lower pricing and unfavorable product mix. Gross profit in the third quarter of 2016 was $37,602 compared to $35,680 in the same period last year.

Selling, general and administrative (“SG&A”) expenses of $14,950 in the third quarter of 2016 increased compared to $13,989 in the third quarter of 2015. The increase is mainly due to higher bonus expense (approximately $1,100), costs related to the recent acquisition of PharmaCore (approximately $400) and higher personnel costs (approximately $400) partially offset by lower costs associated with the implementation of a new ERP system (approximately $400) and recruiting/relocation costs (approximately $300). SG&A as a percentage of gross sales was 15.0% and 15.1% in the third quarters of 2016 and 2015, respectively.

Results of Operations (continued)

Comparison of Third Quarter 2016 versus Third Quarter 2015 (continued)

Research and development ("R&D") expenses of $3,193 were 3.2% of gross sales in the third quarter of 2016, compared to $3,672 or 4.0% of gross sales in the third quarter of 2015. The decrease is primarily related to lower costs to develop new generic drug products due to the timing of activities (approximately $600).

Operating profit in the third quarter of 2016 was $19,459 compared to $18,019 in the third quarter of 2015. The increase in operating profit is due to higher gross profit partially offset by higher operating expenses as described above.

Net interest expense was $366 in the third quarter of 2016 compared to $517 in the third quarter of 2015. The decrease is the result of paying off the Company's debt in early 2016 and higher interest income generated from cash balances. Interest expense during the quarter represents amortization of debt issuance costs and commitment fees related to the new credit facility entered into during the second quarter. The Company did not have any debt outstanding during the third quarter of 2016. The average interest rate on debt was 2.4% in the third quarter of 2015.

The tax provision from continuing operations in the third quarter of 2016 was expense of $5,443 compared to $5,330 in the third quarter of 2015. The effective tax rate in the third quarter of 2016 was 28.4% compared to 31.0% in the third quarter of 2015. The decrease was primarily related to a small amount of tax benefits recorded in the quarter.

Income from continuing operations in the third quarter of 2016 was $13,721, or $0.42 per diluted share, versus $11,876, or $0.36 per diluted share in the same period a year ago.

Comparison of First Nine Months of 2016 versus First Nine Months of 2015

Gross sales in the first nine months of 2016 of $312,856 were $35,943 or 13.0% higher than the first nine months of 2015. Excluding a 0.5% favorable impact of foreign exchange compared to the first nine months of 2015, sales increased 12.5% due to higher volumes (16.6%) partially offset by lower pricing on certain products (4.1%). Certain branded APIs, controlled substances, custom development products and generic APIs drove the growth.

The following table reflects sales by geographic area for the first nine months of 2016 and 2015:

	First nine months	
	2016	2015
Europe	$184,852	$162,475
North America	105,646	95,751
Asia	13,459	9,854
Other	8,899	8,833
Total gross sales	$312,856	$276,913

Gross margins in the first nine months of 2016 and 2015 were 40.0%. Excluding a favorable impact from foreign currency, margins in the first nine months of 2016 were 39.4% compared to 40.0% in the same period last year. This decrease was primarily due to lower pricing. Gross profit in the first nine months of 2016 was $125,058 compared to $110,704 in the same period last year.

Results of Operations (continued)

Comparison of First Nine Months of 2016 versus First Nine Months of 2015 (continued)

SG&A expenses were $42,602 in the first nine months of 2016 compared to $41,818 in the first nine months of 2015. The increase was a result of higher sales and marketing expenses (approximately $900), higher personnel costs (approximately $800) and higher restructuring expenses (approximately $400) partially offset by lower recruiting/relocation costs (approximately $1,100) and lower bonus expense (approximately $300). SG&A as a percentage of gross sales was 13.6% and 15.1% in the first nine months of 2016 and 2015, respectively.

R&D expenses of $10,796 were 3.5% of gross sales in the first nine months of 2016, compared to $9,030 or 3.3% of gross sales in the first nine months of 2015. The increase is primarily related to increased personnel costs.

Operating profit in the first nine months of 2016 was $71,660 compared to $59,856 in the first nine months of 2015. The increase in operating profit is primarily due to higher gross profit partially offset by higher operating expenses as described above.

Net interest expense was $357 in the first nine months of 2016 compared to $1,467 in the first nine months of 2015. The decrease is the result of paying off the Company’s debt in early 2016 and higher capitalized interest resulting from increased capital spending in the first nine months of 2016 compared to the same period last year. The average interest rate on debt was 2.4% in the first nine months of 2015.

The tax provision from continuing operations in the first nine months of 2016 was expense of $21,784 compared to $18,569 in the first nine months of 2015. The effective tax rate in the first nine months of 2016 was 30.6% compared to 31.9% in the first nine months of 2015. The decrease was mainly due to the geographic mix of income.

Income from continuing operations in the first nine months of 2016 was $49,376, or $1.50 per diluted share, versus $39,694, or $1.22 per diluted share in the same period a year ago.

Liquidity and Capital Resources

During the first nine months of 2016, cash provided by operations was $111,835 versus $80,045 in the same period a year ago. This increase was primarily due to collections of accounts receivable related to sales that occurred in late 2015 and an advance payment of $39,000 partially offset by increased inventory production.

Cash flows used in investing activities in the first nine months of 2016 mostly related to capital expenditures of $37,706 compared to $39,706 in the same period a year ago. Capital expenditures in the first nine months of 2016 and 2015 primarily expanded the Company’s manufacturing capacity to support expected growth.

Cash flows used in financing activities in the first nine months of 2016 were $27,441 compared to $26,180 in the same period a year ago. The 2016 and 2015 cash flows primarily relate to the pay down of the Company’s debt.

The Company expects to spend approximately $67,000 to $72,000 on capital expenditures during 2016.

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.

Liquidity and Capital Resources (continued)

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.

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. See the "Risk Factors" section of the Company's Annual Report on Form 10-K for the period ended December 31, 2015 for further explanation of factors that may negatively impact the Company's cash flows.

As discussed more fully in Note 12 to the Consolidated Financial Statements, the Company is waiting for additional information to develop an estimate to record a reserve for remediation activities at Berry's Creek. The timing and amount of any future cash payments are currently not known. While required payments could be material to the cash flows of any period, the resolution of this matter is not expected to materially impact the Company's operations or financial position.

Any change in the current status of these factors could adversely impact the Company's ability to fund operating cash flow requirements.

Impact of Recent Accounting Pronouncements

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. This standard is 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.

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.

Impact of Recent 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.

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 nine months of 2016. 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, 2015.

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 nine months of 2016. 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, 2015.

Item 6. Exhibits

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** 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 101.DEF* XBRL Taxonomy Extension Definition Linkbase

Exhibit 101.LAB* XBRL Taxonomy Extension Label Linkbase

Exhibit 101.PRE* XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith
**Furnished herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Consolidated Income Statements for the three and nine months ended September 30, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, 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/ Gregory P. Sargen
Gregory P. Sargen
Executive Vice President and

Chief Financial Officer

(On behalf of the Registrant and as the

Registrant's Principal Financial Officer)

Dated: November 4, 2016