

CAMBREX CORP  
Form 10-Q  
November 04, 2010

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

FORM 10-Q

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

for the quarterly period ended September 30, 2010

OR

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

for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-10638

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

DELAWARE  
(State or other jurisdiction of incorporation or  
organization)

22-2476135  
(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 T. No o.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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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, 2010, there were 29,426,645 shares outstanding of the registrant’s Common Stock, \$.10 par value.

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## CAMBREX CORPORATION AND SUBSIDIARIES

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## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 42,996	\$ 52,365
Trade receivables, net	30,989	32,025
Inventories, net	66,288	58,369
Prepaid expenses and other current assets	8,497	6,654
Total current assets	148,770	149,413
Property, plant and equipment, net	153,614	161,149
Goodwill and intangible assets, net	43,199	36,360
Other non-current assets	4,095	4,593
Total assets	\$ 349,678	\$ 351,515
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 18,123	\$ 17,038
Accrued expenses and other current liabilities	36,910	38,013
Total current liabilities	55,033	55,051
Long-term debt	114,400	120,800
Deferred income tax	18,388	17,305
Accrued pension and postretirement benefits	41,506	40,963
Other non-current liabilities	13,102	14,126
Total liabilities	242,429	248,245
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued 31,408,778 shares at respective dates	3,140	3,140
Additional paid-in capital	101,228	100,497
Retained earnings	27,345	22,345
Treasury stock, at cost, 2,024,190 and 2,121,372 shares at respective dates	(17,265 )	(18,109 )
Accumulated other comprehensive loss	(7,199 )	(4,603 )
Total stockholders' equity	107,249	103,270
Total liabilities and stockholders' equity	\$ 349,678	\$ 351,515

See accompanying notes to unaudited consolidated financial statements.

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## CAMBREX CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

(unaudited)

(in thousands, except per-share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Gross sales	\$49,356	\$57,802	\$162,914	\$177,568
Allowances and rebates	492	285	1,204	623
Net sales	48,864	57,517	161,710	176,945
Other	(1,090 )	(1,147 )	374	(262 )
Net revenues	47,774	56,370	162,084	176,683
Cost of goods sold	33,664	39,422	115,548	120,919
Gross profit	14,110	16,948	46,536	55,764
Operating expenses:				
Selling, general and administrative expenses	7,879	9,295	24,784	26,889
Research and development expenses	3,080	2,026	7,906	5,924
Restructuring expenses	1,187	-	1,187	-
Merger and acquisition expenses	711	-	786	-
Total operating expenses	12,857	11,321	34,663	32,813
Operating profit	1,253	5,627	11,873	22,951
Other expenses/(income):				
Interest expense, net	1,233	1,111	3,602	3,410
Other expenses/(income), net	52	(31 )	69	(139 )
(Loss)/income before income taxes	(32 )	4,547	8,202	19,680
Provision for income taxes	1,252	1,584	4,137	6,520
(Loss)/income from continuing operations	\$(1,284 )	\$2,963	\$4,065	\$13,160
(Loss)/income from discontinued operations	(170 )	-	935	-
Net (loss)/income	\$(1,454 )	\$2,963	\$5,000	\$13,160
Basic (loss)/earnings per share of common stock:				
(Loss)/income from continuing operations	\$(0.04 )	\$0.10	\$0.14	\$0.45
(Loss)/income from discontinued operations	\$(0.01 )	\$-	\$0.03	\$-
Net (loss)/income	\$(0.05 )	\$0.10	\$0.17	\$0.45

Diluted (loss)/earnings per share of common stock:

(Loss)/income from continuing operations	\$ (0.04	)	\$ 0.10	\$ 0.14	\$ 0.45
(Loss)/income from discontinued operations	\$ (0.01	)	\$ -	\$ 0.03	\$ -
Net (loss)/income	\$ (0.05	)	\$ 0.10	\$ 0.17	\$ 0.45

Weighted average shares outstanding:

Basic	29,373	29,253	29,341	29,225
Effect of dilutive stock based compensation*	-	50	102	24
Diluted	29,373	29,303	29,443	29,249

\* For the three months ended September 30, 2010, the effect of stock options and restricted stock would be anti-dilutive and is therefore excluded.

See accompanying notes to unaudited consolidated financial statements.

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

	Nine months ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$5,000	\$13,160
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	15,997	14,774
Increase in inventory reserve	86	2,514
Stock based compensation included in net income	1,493	988
Deferred income tax provision	(1,007 )	24
Restructuring charges	1,071	-
Other	219	66
Changes in assets and liabilities:		
Trade receivables	1,836	833
Inventories	(7,612 )	135
Prepaid expenses and other current assets	(1,137 )	(518 )
Accounts payable and other current liabilities	614	(12,450 )
Other non-current assets and liabilities	(94 )	30
Discontinued operations:		
Other non-current assets and liabilities	(22 )	-
Adjustments to reconcile discontinued operations to cash flows	(935 )	-
Net cash provided by operating activities	15,509	19,556
Cash flows from investing activities:		
Capital expenditures	(8,572 )	(9,651 )
Acquisition of business, net of cash	(6,897 )	-
Other investing activities	(36 )	57
Net cash used in investing activities	(15,505 )	(9,594 )
Cash flows from financing activities:		
Long-term debt activity (including current portion):		
Borrowings	29,700	19,700
Repayments	(36,100 )	(19,500 )
Other financing activities	(50 )	(44 )
Net cash (used in)/provided by financing activities	(6,450 )	156
Effect of exchange rate changes on cash and cash equivalents	(2,923 )	2,687
Net (decrease)/increase in cash and cash equivalents	(9,369 )	12,805
Cash and cash equivalents at beginning of period	52,365	32,540
Cash and cash equivalents at end of period	\$42,996	\$45,345



See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(dollars 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 generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2009.

The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results expected for the full year.

For the three and nine months ended September 30, 2010 the Company recorded expense of \$170, as discontinued operations, for a workers' compensation claim related to an employee of a divested business. For the nine months ended September 30, 2010 the Company recorded a benefit of \$1,652 as a result of the expiration of a contingent liability and charges of \$547 for environmental remediation related to sites of divested businesses as discontinued operations.

(2) Impact of Recently Issued Accounting Pronouncements

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board issued "Fair Value Measurements and Disclosures - Improving Disclosures about Fair Value Measurements." This statement requires new disclosures and clarifies existing disclosure requirements about fair value measurement. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The effect of adopting this pronouncement will not have an impact on the Company's financial position or results of operations.

Revenue Arrangements with Multiple Deliverables

In September 2009, the Emerging Issues Task Force ("EITF") issued "Revenue Arrangements with Multiple Deliverables." This issue addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how to allocate the consideration to each unit of accounting. This issue eliminates the use of the residual value method for determining allocation of arrangement consideration and allows the use of an entity's best estimate to determine the selling price if vendor specific objective evidence and third-party evidence can not be determined. This issue also requires additional disclosure to provide both qualitative and quantitative information regarding the significant judgments made in applying this issue. In addition, for each reporting period in the initial year of adoption, this issue requires disclosure of the amount of revenue recognized subject to the measurement requirements of this issue and the amount of revenue that would have been recognized if the related transactions were subject to the measurement requirements of Issue 00-21. The Company has elected to

early adopt the provisions of this standard, on a prospective basis, for revenue arrangements entered into or materially modified beginning January 1, 2010. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

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

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

## Revenue Recognition – Milestone Method

In April 2010, the EITF issued “Revenue Recognition – Milestone Method.” This issue provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This issue is effective on a prospective basis for milestones achieved in fiscal years beginning after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the potential impact of this issue.

## (3) Stock Based Compensation

The Company recognizes compensation costs for stock option awards 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 stock options granted to employees during the nine months ended September 30, 2010 and 2009 was \$2.45 and \$1.48, respectively.

For the three months ended September 30, 2010 and 2009, the Company recorded \$268 and \$104, respectively, in selling, general and administrative expenses for stock options. For the nine months ended September 30, 2010 and 2009, the Company recorded \$821 and \$416, respectively, in selling, general and administrative expenses for stock options. As of September 30, 2010, the total compensation cost related to unvested stock options not yet recognized was \$2,442. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.7 years.

For the three months ended September 30, 2010 and 2009, the Company recorded \$147 and \$135, respectively, in selling, general and administrative expenses for restricted stock awards. For the nine months ended September 30, 2010 and 2009, the Company recorded \$540 and \$520, respectively, in selling, general and administrative expenses for restricted stock awards. As of September 30, 2010 the total compensation cost related to unvested restricted stock not yet recognized was \$461. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.5 years.

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

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	2,020,369	\$ 11.27
Forfeited or expired	(14,975 )	\$ 6.41
Outstanding at March 31, 2010	2,005,394	\$ 11.31
Granted	220,000	\$ 4.38
Forfeited or expired	(297,750 )	\$ 25.96
Outstanding at June 30, 2010	1,927,644	\$ 8.25
Forfeited or expired	(48,824 )	\$ 28.10

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Outstanding at September 30, 2010	1,878,820	\$	7.74
Exercisable at September 30, 2010	657,775	\$	12.13

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

## (3) Stock Based Compensation (continued)

The aggregate intrinsic value for all stock options outstanding and exercisable as of September 30, 2010 was negligible.

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

	Nonvested Stock Options		Nonvested Restricted Stock	
	Number of	Weighted-Average	Number of	Weighted-Average
	Shares	Grant-Date Fair Value	Shares	Grant-Date Fair Value
Nonvested at January 1, 2010	1,133,790	\$ 2.67	90,686	\$ 11.43
Granted	-	\$ -	88,348	\$ 5.54
Vested during period	(5,375 )	\$ 2.27	(26,956 )	\$ 10.65
Forfeited	(11,275 )	\$ 2.92	(400 )	\$ 13.75
Nonvested at March 31, 2010	1,117,140	\$ 2.66	151,678	\$ 8.13
Granted	220,000	\$ 2.45	37,080	\$ 4.32
Vested during period	(66,250 )	\$ 1.88	(6,390 )	\$ 5.64
Forfeited	(17,500 )	\$ 2.64	-	\$ -
Nonvested at June 30, 2010	1,253,390	\$ 2.67	182,368	\$ 7.44
Vested during period	(31,421 )	\$ 6.36	(38,704 )	\$ 13.75
Forfeited	(924 )	\$ 5.65	(400 )	\$ 13.75
Nonvested at September 30, 2010	1,221,045	\$ 2.57	143,264	\$ 5.72

## (4) Goodwill and Intangible Assets

In March 2010 the Company acquired IEP GmbH ("IEP") for approximately \$6,900 in cash. The allocation of the fair value of the acquisition resulted in goodwill of \$3,469 and acquired intangible assets of \$4,454. The acquired intangible assets consist mostly of patented technology and customer contracts with amortization periods ranging from 10 years to 20 years.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2010, are as follows:

Balance as of January 1, 2010	\$36,360
Acquisition of IEP	3,469
Translation effect	(1,485 )
Balance as of September 30, 2010	\$38,344