

CAMBREX CORP
Form 10-Q
August 04, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

for the quarterly period ended June 30, 2017

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 (I.R.S. Employer
incorporation or organization) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, there were 32,729,626 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, 2016, 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, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94,177	\$ 74,141
Trade receivables, net	99,064	110,622
Other receivables	9,001	6,748
Inventories, net	156,576	123,184
Prepaid expenses and other current assets	7,421	7,960
Total current assets	366,239	322,655
Property, plant and equipment, net	237,796	217,092
Goodwill	42,304	40,323
Intangible assets, net	14,590	14,800
Deferred income taxes	8,611	13,061
Other non-current assets	3,541	3,934
Total assets	\$ 673,081	\$ 611,865
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 39,129	\$ 42,873
Deferred revenue and advance payments	7,766	7,506
Taxes payable	4,206	9,469
Accrued expenses and other current liabilities	37,254	35,614
Total current liabilities	88,355	95,462
Advance payments	39,000	39,000
Deferred income taxes	7,443	6,921
Accrued pension benefits	43,934	43,109
Other non-current liabilities	23,787	21,946
Total liabilities	202,519	206,438

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Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued 34,151,275 and 33,927,595 shares at respective dates	3,415	3,393
Additional paid-in capital	159,383	153,681
Retained earnings	372,271	327,376
Treasury stock, at cost, 1,433,649 and 1,583,909 shares at respective dates	(12,221)	(13,503)
Accumulated other comprehensive loss	(52,286)	(65,520)
Total stockholders' equity	470,562	405,427
Total liabilities and stockholders' equity	\$ 673,081	\$ 611,865

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		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Gross sales	\$ 134,487	\$ 119,054	\$ 238,198	\$ 212,989
Commissions, allowances and rebates	649	833	1,243	1,336
Net sales	133,838	118,221	236,955	211,653
Other revenues, net	716	417	2,605	1,726
Net revenue	134,554	118,638	239,560	213,379
Cost of goods sold	77,052	70,081	135,233	125,923
Gross profit	57,502	48,557	104,327	87,456
Operating expenses:				
Selling, general and administrative expenses	18,480	13,607	34,234	27,652
Research and development expenses	4,467	4,125	8,357	7,603
Total operating expenses	22,947	17,732	42,591	35,255
Operating profit	34,555	30,825	61,736	52,201
Other expenses/(income):				
Interest expense/(income), net	388	46	654	(9)
Other (income)/expenses, net	(131)	180	(143)	214
Income before income taxes	34,298	30,599	61,225	51,996
Provision for income taxes	9,174	9,789	14,986	16,341
Income from continuing operations	25,124	20,810	46,239	35,655
Loss from discontinued operations, net of tax	(94)	(316)	(1,344)	(579)
Net income	\$ 25,030	\$ 20,494	\$ 44,895	\$ 35,076

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

Income from continuing operations	\$0.77	\$0.65	\$1.42	\$1.12
Loss from discontinued operations, net of tax	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.02)
Net income	\$0.77	\$0.64	\$1.38	\$1.10

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

Income from continuing operations	\$0.75	\$0.63	\$1.38	\$1.09
Loss from discontinued operations, net of tax	\$(0.00)	\$(0.01)	\$(0.04)	\$(0.02)
Net income	\$0.75	\$0.62	\$1.34	\$1.07

Weighted average shares outstanding:

Basic	32,629	32,063	32,542	31,975
Effect of dilutive stock based compensation	840	863	874	873
Diluted	33,469	32,926	33,416	32,848

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,	
	2017	2016	2017	2016
Net income	\$25,030	\$20,494	\$44,895	\$35,076
Other comprehensive income/(loss):				
Foreign currency translation adjustments	10,279	(6,383)	12,747	712
Pension plan amortization of net actuarial loss and prior service cost, net of tax of \$117, \$100, \$232 and \$200 at respective dates	243	202	487	404
Comprehensive income	\$35,552	\$14,313	\$58,129	\$36,192

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,	
	2017	2016
Cash flows from operating activities:		
Net income	\$44,895	\$35,076
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	14,827	11,274
Non-cash deferred revenue	(4,115)	(2,616)
Increase in inventory reserve	2,318	5,089
Unrealized gain on foreign currency contracts	(1,069)	(148)
Stock based compensation	4,033	3,300
Deferred income tax provision	1,969	8,872
Other	(146)	454
Changes in assets and liabilities:		
Trade receivables	15,047	15,022
Inventories	(31,165)	(35,021)
Prepaid expenses and other current assets	(1,308)	(5,461)
Accounts payable and other current liabilities	(13,180)	(11,665)
Deferred revenue and advance payments	3,298	40,758
Other non-current assets and liabilities	563	652
Discontinued operations:		
Non-cash adjustments to net income	2,300	-
Net cash used in discontinued operations	(1,190)	(195)
Net cash provided by operating activities	37,077	65,391
Cash flows from investing activities:		
Capital expenditures	(22,862)	(26,553)
Proceeds from sale of assets	-	13
Net cash used in investing activities	(22,862)	(26,540)
Cash flows from financing activities:		
Repayment of debt	-	(30,000)
Proceeds from stock options exercised	2,973	1,956
Debt issuance costs	-	(2,515)
Net cash provided by/(used in) financing activities	2,973	(30,559)
Effect of exchange rate changes on cash and cash equivalents	2,848	207
Net increase in cash and cash equivalents	20,036	8,499

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Cash and cash equivalents at beginning of period	74,141	43,974
Cash and cash equivalents at end of period	\$94,177	\$52,473

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, 2016.

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

The following accounting pronouncements became effective for the Company in the first six months of 2017:

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 became effective for the Company on January 1, 2017. The new standard requires recognition of excess tax benefits that had not previously been recognized. The Company had no remaining unrecognized excess tax benefits as of December 31, 2016. All excess tax benefits and deficiencies in future periods will be recorded as part of the current period tax provision within the Income Statement. This will result in increased volatility in the Company's effective tax rate. During the first six months of 2017, the Company recognized a tax benefit of \$4,379 which lowered the effective tax rate by 7.1%. No other provisions in this new standard had a significant impact on the consolidated financial statements including the Company's accounting policy election to account for forfeitures when they occur.

To conform to the current year presentation, the Company reclassified \$770 of excess tax benefits under financing activities to operating activities for the six months ended June 30, 2016 on the consolidated statement of cash flows.

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 update became effective on January 1, 2017 and did not have a material impact on the Company's 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)

The following recently issued accounting pronouncements will become effective for the Company in the future:

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have a material impact on its consolidated financial statements.

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have a material impact on its consolidated financial statements.

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 does not expect this new guidance to have a material impact 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. At this time, the Company has no financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. This adjustment will not be material to the Company, assuming there is not an increase in lease activity.

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. Numerous updates were issued in 2016 that provide clarification on a number of specific issues as well as requiring additional disclosures. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period.

The Company continues to evaluate the impact of adoption of the new standard. As part of this evaluation, the Company has identified the revenue streams and reviewed the related critical customer contract terms and provisions. The Company has concluded that the timing of the recognition of revenue for certain products that was previously recognized upon delivery will be recognized over time utilizing a measure of progress toward satisfaction of the performance obligations. These products, which represented 63% of 2016 net revenue, are typically manufactured exclusively for specific customers and have no other alternative use. Generally, under these customer agreements, Cambrex is entitled to compensation for progress to date that includes an element of profit margin. The Company expects to adopt the new standard using the modified retrospective method. Upon adoption of the new standard, the Company will be required to make an estimate of the progress completed to date for these products and record the net effect as a cumulative effect adjustment in the equity section. This adjustment will cause the 2018 Income Statement to have lower sales and associated costs since they will be recorded in equity at adoption. Depending on the amount of these projects in process at the end of 2017, the adjustment could be significant. The Company will also record a contract asset for the unbilled revenue and a reduction in inventory. The Company continues to assess the impact of the related disclosures as well as finalizing a methodology and process for recognizing product revenue over time.

Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

In March 2017, the FASB issued ASU 2017-07 which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined pension and other postretirement plans. The ASU requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such subtotal is presented. The ASU also requires entities to disclose the income statement lines that contain the other components if they are not presented separately. The ASU's amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have an impact 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)

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 which simplifies the goodwill impairment test by eliminating Step 2 in the determination on whether goodwill should be considered impaired. Instead, an impairment charge should equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Scope of Modification Accounting, Stock Based Compensation

In May 2017, the FASB issued ASU 2017-09 which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

(3) Net Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Net inventories consist of the following:

	June 30, 2017	December 31, 2016
Finished goods	\$41,123	\$29,117
Work in process	70,187	54,463
Raw materials	38,852	33,841
Supplies	6,414	5,763
Total	\$156,576	\$123,184

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CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

(4) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2017, is as follows:

Balance as of December 31, 2016	\$40,323
Translation effect	1,981
Balance as of June 30, 2017	\$42,304

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

	Amortization Period (in years)	As of June 30, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	3 - 7	\$6,940	\$ (1,283)) \$ 5,657
Technology-based intangibles	20	3,469	(1,258)) 2,211
Customer-related intangibles	10 - 15	7,573	(851)) 6,722
		\$17,982	\$ (3,392)) \$ 14,590

	Amortization Period (in years)	As of December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

	Period (in years)	Amount	Amount
Internal-use software	3 - 7	\$6,444	\$ (829) \$ 5,615
Technology-based intangibles	20	3,204	(1,082) 2,122
Customer-related intangibles	10 - 15	7,522	(459) 7,063
		\$17,170	\$ (2,370) \$ 14,800

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

Amortization expense was \$500 and \$898 for the three and six months ended June 30, 2017, respectively. Amortization expense was \$211 and \$387 for the three and six months ended June 30, 2016, respectively.

Amortization expense related to intangible assets is expected to be approximately \$1,871 for 2017, \$1,995 for 2018 and 2019, and \$1,979 for 2020 and 2021.

(5) Income Taxes

Income tax expense from continuing operations for the three and six months ended June 30, 2017 was \$9,174 and \$14,986, respectively, compared to \$9,789 and \$16,341 for the three and six months ended June 30, 2016, respectively. The effective tax rate for the three and six months ended June 30, 2017 was 26.7% and 24.5%, respectively, compared to 32.0% and 31.4% for the three and six months ended June 30, 2016, respectively. Tax expense for the six months ended June 30, 2017 was favorably impacted by \$4,379 as a result of applying ASU 2016-09. The standard requires recognition immediately in the tax provision of certain effects of share-based payments that were possibly deferred under the previous guidance. Excluding the effects of applying the new standard, the effective tax rate for the six months ended June 30, 2017 was 31.6%.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(6) 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, 2017 and 2016 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were \$44,019 and \$20,896 at June 30, 2017 and December 31, 2016, 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 gain of \$1,069 and \$125 at June 30, 2017 and December 31, 2016, respectively. Losses are recorded in "Accrued expenses and other current liabilities" and gains are recorded in "Prepaid expenses and other current assets" on the balance sheet and "Other revenues, net" on the income statement.

CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

(7) 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, 2017 and December 31, 2016:

Fair Value - Level 2	June 30, 2017	December 31, 2016
Foreign currency forwards, assets	\$1,069	\$ 125

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.

CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

(8) Accumulated Other Comprehensive Income/(Loss)

The following tables provide the changes in AOCI by component (pension, net of tax) for the three months ended June 30, 2017 and 2016:

	Foreign		
	Currency	Pension	Total
	Translation	Plans	
	Adjustments		
Balance as of March 31, 2017	\$ (31,822)	\$ (30,986)	\$ (62,808)
Other comprehensive income before reclassifications	10,279	-	10,279
Amounts reclassified from accumulated other comprehensive loss	-	243	243
Net current-period other comprehensive income	10,279	243	10,522
Balance as of June 30, 2017	\$ (21,543)	\$ (30,743)	\$ (52,286)

	Foreign		
	Currency	Pension	Total
	Translation	Plans	
	Adjustments		
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)

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The following tables provide the changes in AOCI by component (pension, net of tax) for the six months ended June 30, 2017 and 2016:

	Foreign		
	Currency	Pension	Total
	Translation	Plans	
	Adjustments		
Balance as of December 31, 2016	\$ (34,290)	\$ (31,230)	\$ (65,520)
Other comprehensive income before reclassifications	12,747	-	12,747
Amounts reclassified from accumulated other comprehensive loss	-	487	487
Net current-period other comprehensive income	12,747	487	13,234
Balance as of June 30, 2017	\$ (21,543)	\$ (30,743)	\$ (52,286)

CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

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

	Foreign		
	Currency	Pension	
	Translation	Plans	Total
	Adjustments		
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)

The following tables provide the reclassifications from AOCI by component for the three and six months ended June 30, 2017 and 2016:

Details about AOCI Components	Three months ended	Six months ended
	June 30, 2017	June 30, 2017
Amortization of defined benefit pension items:		
Actuarial losses	\$ (347)	\$ (693)
Prior service costs	(13)	(26)
Total before tax	(360)	(719)
Tax benefit	117	232
Net of tax	\$ (243)	\$ (487)

Total reclassification for the period \$ (243) \$ (487)

Details about AOCI Components	Three	Six
	months	months
	ended	ended
	June	June
	30, 2016	30, 2016
Amortization of defined benefit pension items:		
Actuarial losses	\$ (290)	\$ (579)
Prior service costs	(12)	(25)
Total before tax	(302)	(604)
Tax benefit	100	200
Net of tax	\$ (202)	\$ (404)
Total reclassification for the period	\$ (202)	\$ (404)

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.

CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

(9) 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 three and six months ended June 30, 2017 were \$18.37 and \$20.14, respectively. The weighted-average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2016 was \$13.82.

For the three months ended June 30, 2017 and 2016, the Company recorded \$1,128 and \$972, respectively, in “Selling, general and administrative expenses” for stock options. For the six months ended June 30, 2017 and 2016, the Company recorded \$2,126 and \$1,824, respectively, in “Selling, general and administrative expenses” for stock options. As of June 30, 2017, the total compensation cost related to unvested stock options not yet recognized was \$8,411. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.2 years.

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

Options	Number	Weighted
	of	Average
	Shares	Exercise
		Price
Outstanding at December 31, 2016	1,519,338	\$ 25.22
Granted	39,037	54.15
Exercised	(61,249)	11.83
Outstanding at March 31, 2017	1,497,126	26.52
Granted	19,598	58.98
Exercised	(162,431)	13.84
Outstanding at June 30, 2017	1,354,293	28.51

Exercisable at June 30, 2017 505,909 \$ 19.70

The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2017 were \$6,755 and \$9,342, respectively. The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2016 were \$6,668 and \$8,022, respectively. The aggregate intrinsic values for all stock options outstanding and exercisable as of June 30, 2017 were \$42,307 and \$20,262, respectively.

CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

(9) Stock Based Compensation (continued)

The following table is a summary of the Company's unvested stock options, restricted stock and performance shares for which the requisite service period has not been rendered but that are expected to vest on the achievement of a performance condition:

	Unvested Stock Options		Unvested Restricted Stock		Unvested Performance Shares	
	Weighted-		Weighted-		Weighted-	
	Number	Average	Number	Average	Number	Average
	of	Grant-Date	of	Grant-Date	of	Grant-Date
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Unvested at December 31, 2016	817,540	\$ 12.50	260	\$ 41.05	316,750	\$ 30.08
Granted	39,037	21.02	-	-	-	-
Vested during period	(14,975)	8.16	-	-	-	-
Unvested at March 31, 2017	841,602	12.97	260	41.05	316,750	30.08
Granted	19,598	18.37	9,496	58.98	5,750	41.36
Vested during period	(12,816)	8.50	(260)	41.05	-	-
Unvested at June 30, 2017	848,384	\$ 13.17	9,496	\$ 58.98	322,500	\$ 30.28

For the three months ended June 30, 2017 and 2016, the Company recorded \$188 and \$161, respectively, in "Selling, general and administrative expenses" for restricted stock awards. For the six months ended June 30, 2017 and 2016, the Company recorded \$194 and \$166, respectively, in "Selling, general and administrative expenses" for restricted stock awards. As of June 30, 2017, total compensation cost related to unvested restricted stock not yet recognized was \$373. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 0.3 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 June 30, 2017 and 2016, the Company recorded \$930 and \$631, respectively, in “Selling, general and administrative expenses” related to these PS awards. For the six months ended June 30, 2017 and 2016, the Company recorded \$1,713 and \$1,310, respectively, in “Selling, general and administrative expenses” related to these PS awards. As of June 30, 2017, total compensation cost related to unvested performance shares not yet recognized was \$3,964. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.0 year.

CAMBREX CORPORATION AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(in thousands, except share data)

(Unaudited)

(10) 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 six months ended June 30, 2017 and 2016 were as follows:

	Three months ended June 30, 2017		Six months ended June 30, 2016	
Components of net periodic benefit cost				
Interest cost	\$554	\$598	\$1,108	\$1,195
Expected return on plan assets	(677)	(662)	(1,354)	(1,324)
Recognized actuarial loss	200	194	400	388
Net periodic benefit cost	\$77	\$130	\$154	\$259

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 June 30, 2017 and 2016 were \$77 and \$64, respectively. Net periodic benefit cost for the six months ended June 30, 2017 and 2016 were \$154 and \$129, respectively.

International Pension Plan

The components of net periodic benefit cost for the Company's international pension plan for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Components of net periodic benefit cost				
Service cost	\$228	\$187	\$453	\$375
Interest cost	178	187	353	374
Recognized actuarial loss	88	49	174	98
Amortization of prior service benefit	(1)	(1)	(2)	(2)
Net periodic benefit cost	\$493	\$422	\$978	\$845

(11) 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)

(11) 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. At June 30, 2017, the reserves were \$17,706, of which \$16,950 is included in "Other non-current liabilities" on the Company's balance sheet. At December 31, 2016, these reserves were \$16,703, of which \$15,441 is included in "Other non-current liabilities" on the Company's balance sheet. The increase in the reserves includes

adjustments to reserves of \$2,300, partially offset by payments of \$1,297. 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 future sampling will be used to develop an estimate of the Company's future liability for remediation costs. New remedial requirements resulting from the on-going site investigation were identified during the first quarter of 2017, and site investigation continues. As of June 30, 2017, the Company's reserve was \$462.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(11) 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, and the Company continues to move forward with the projects at each site in accordance with the established schedules and work plans. As of June 30, 2017, the Company's reserve was \$1,947.

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. In April 2017, USEPA approved the requested addendum to the RI/FS Work Plan, which included the description of the phased and adaptive management approach to the Berry's Creek remedy.

The scope of remedial activities in the initial interim remedy is currently being developed and based upon preliminary cost estimates, the Company's reserve was \$9,909 as of June 30, 2017. The estimated costs for the initial interim remedy may 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 2.37%. 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.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(11) Contingencies (continued)

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.

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 May 2017, the Company made a payment to USEPA in the amount of \$363 for ongoing oversight costs. As of June 30, 2017, the Company's reserve was \$329, 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, including a study evaluating the feasibility of certain remedial alternatives in August 2016. By letter dated January 5, 2017, NYSDEC disapproved such feasibility study report and requested certain revisions to the report. The Company and Pfizer engaged in further discussions with NYSDEC and have agreed to submit a revised version of the August 2016 feasibility study to address certain of NYSDEC's requests.

As it is too soon to determine whether these reports and remedial plans, 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 June 30, 2017, the Company's reserve was \$3,465. 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.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(11) Contingencies (continued)

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.

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 has paid the funding requests. A final allocation of SCP Site costs (excluding Berry’s Creek costs) is expected to be finalized in 2017. As of June 30, 2017, the Company’s reserve was \$808, of which approximately \$517 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).

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(11) Contingencies (continued)

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.

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.

(12) Discontinued Operations

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation expenses for divested sites. For the three months ended June 30, 2017 and 2016, the Company recorded \$94 and \$316, respectively, as losses from discontinued operations, net of tax. For the six months ended June 30, 2017 and 2016, the Company recorded \$1,344 and \$579, respectively, as losses from discontinued operations, net of tax. As of June 30, 2017 and December 31, 2016, liabilities recorded on the Company's balance sheet related to discontinued operations were \$17,706 and \$16,703, 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 six months ended June 30, 2017 and 2016 were \$1,190 and \$195, respectively. Refer to Note 11 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 June 30, 2017		Six months ended June 30, 2016	
	2017	2016	2017	2016
Pre-tax loss from discontinued operations	\$ (149)	\$ (487)	\$ (2,072)	\$ (891)
Income tax benefit	55	171	728	312
Loss from discontinued operations, net of tax	\$ (94)	\$ (316)	\$ (1,344)	\$ (579)

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 second quarter of 2017:

Net revenue increased 13.4% on a reported basis compared to the second quarter of 2016. Net revenue, excluding currency impact, increased 15.0%.

Gross margins increased to 42.7% from 40.9% in the second quarter of 2016.

Net cash was \$94,177 compared to \$74,141 at December 31, 2016, an increase of \$20,036.

Results of Operations

Comparison of Second Quarter 2017 versus Second Quarter 2016

Gross sales in the second quarter of 2017 of \$134,487 were \$15,433 or 13.0% higher than the second quarter of 2016. Excluding a 1.5% unfavorable impact of foreign exchange compared to the second quarter of 2016, sales increased 14.5% as a result of higher volumes (16.2%) partially offset by lower pricing (1.7%). The increase in volumes was driven primarily by growth in innovator products and controlled substances as well as the addition of Cambrex High Point.

Net revenue in the second quarter of 2017 of \$134,554 were \$15,916 or 13.4% higher than the second quarter of 2016. Excluding a 1.6% unfavorable impact of foreign exchange compared to the second quarter of 2016, net revenue increased 15.0%. The increase is the result of higher volumes as described above.

The following table reflects gross sales by geographic area for the second quarters of 2017 and 2016:

Second quarter
2017 2016

Europe	\$90,474	\$76,804
North America	36,145	34,427
Asia	5,135	5,398
Other	2,733	2,425
Total gross sales	\$134,487	\$119,054

Gross margins in the second quarter of 2017 increased to 42.7% from 40.9% in the second quarter of 2016. The increase was primarily driven by high capacity utilization and manufacturing efficiency improvements partially offset by unfavorable product mix and lower pricing. Gross profit in the second quarter of 2017 was \$57,502 compared to \$48,557 in the same period last year. Foreign currency favorably impacted gross margins by 0.6%.

Selling, general and administrative (“SG&A”) expenses of \$18,480 in the second quarter of 2017 increased compared to \$13,607 in the second quarter of 2016. The increase is mainly due to higher personnel costs (approximately \$2,200), the addition of Cambrex High Point (approximately \$900), medical expenses (approximately \$900) and due diligence costs related to acquisition opportunities (approximately \$700). SG&A, as a percentage of net revenue, was 13.7% and 11.5% in the second quarters of 2017 and 2016, respectively.

Results of Operations (continued)

Comparison of Second Quarter 2017 versus Second Quarter 2016 (continued)

Research and development (“R&D”) expenses of \$4,467 were 3.3% of net revenue in the second quarter of 2017, compared to \$4,125 or 3.5% of net revenue in the second quarter of 2016.

Operating profit in the second quarter of 2017 was \$34,555 compared to \$30,825 in the second quarter of 2016. The increase in operating profit is due to higher gross profit partially offset by higher operating expenses as described above.

Net interest expense was \$388 in the second quarter of 2017 compared to \$46 in the second quarter of 2016. Higher interest expense is the result of higher amortization of debt issuance costs and higher commitment fees related to the new credit facility entered into during the second quarter of 2016. The Company did not have any debt outstanding as of June 30, 2017 and 2016.

Income tax expense from continuing operations in the second quarter of 2017 was \$9,174 compared to \$9,789 in the second quarter of 2016. The effective tax rate in the second quarter of 2017 was 26.7% compared to 32.0% in the second quarter of 2016. Tax expense in the second quarter of 2017 was favorably impacted by \$1,725 from the adoption of ASU 2016-09. The standard requires recognition immediately in the tax provision of certain results of share-based payments that were possibly deferred under the previous guidance. Excluding the effects of applying the new standard, the effective tax rate for the three months ended June 30, 2017 was 31.8%.

Income from continuing operations in the second quarter of 2017 was \$25,124, or \$0.75 per diluted share, versus \$20,810, or \$0.63 per diluted share in the same period a year ago.

Comparison of First Six Months of 2017 versus First Six Months of 2016

Gross sales in the first six months of 2017 of \$238,198 were \$25,209 or 11.8% higher than the first six months of 2016. Excluding a 1.4% unfavorable impact of foreign exchange compared to the second quarter of 2016, sales increased 13.2% as a result of higher volumes (16.3%) partially offset by lower pricing (3.1%). The increase in volumes was driven primarily by growth in innovator products and controlled substances as well as the addition of

Cambrex High Point.

Net revenue in the first six months of 2017 of \$239,560 were \$26,181 or 12.3% higher than the first six months of 2016. Excluding a 1.7% unfavorable impact of foreign exchange compared to the first six months of 2016, net revenue increased 14.0%. The increase is the result of higher volumes as described above and royalties of \$1,000 recorded as “Other revenues, net” in the Company’s income statement.

Comparison of First Six Months of 2017 versus First Six Months of 2016 (continued)

The following table reflects gross sales by geographic area for the first six months of 2017 and 2016:

	First six months	
	2017	2016
Europe	\$ 135,304	\$ 123,949
North America	87,494	74,232
Asia	10,208	8,814
Other	5,192	5,994
Total gross sales	\$ 238,198	\$ 212,989

Gross margins in the first six months of 2017 increased to 43.5% from 41.0% in the first six months of 2016. The increase was primarily due to plant efficiencies, high capacity utilization and royalty income partially offset by lower pricing. Gross profit in the second quarter of 2017 was \$104,327 compared to \$87,456 in the same period last year. Foreign currency favorably impacted gross margins by 0.5%.

Selling, general and administrative (“SG&A”) expenses of \$34,234 in the first six months of 2017 increased compared to \$27,652 in the first six months of 2016. The increase is mainly due to higher personnel costs (approximately \$2,800), the addition of Cambrex High Point (approximately \$1,700), medical expenses (approximately \$1,400) and due diligence costs related to acquisition opportunities (approximately \$500). SG&A, as a percentage of net revenue, was 14.3% and 13.0% in the first six months of 2017 and 2016, respectively.

Research and development (“R&D”) expenses of \$8,357 were 3.5% of net revenue in the first six months of 2017, compared to \$7,603 or 3.6% of net revenue in the first six months of 2016. The increase is primarily related to lower absorption of R&D expenses into inventory and cost of goods sold.

Operating profit in the first six months of 2017 was \$61,736 compared to \$52,201 in the first six months of 2016. The increase in operating profit is due to higher gross profit partially offset by higher operating expenses as described above.

Net interest expense was \$654 in the first six months of 2017 compared to income of \$9 in the first six months of 2016. Higher interest expense is the result of higher amortization of debt issuance costs, higher commitment fees related to the new credit facility entered into during the second quarter of 2016 and lower capitalized interest as a

result of the completion of several large projects in 2016. The Company did not have any debt outstanding as of June 30, 2017 and 2016.

Income tax expense from continuing operations in the first six months of 2017 was \$14,986 compared to \$16,341 in the first six months of 2016. The effective tax rate in the first six months of 2017 was 24.5% compared to 31.4% in the first six months of 2016. Tax expense in the first six months of 2017 was favorably impacted by \$4,379 from the adoption of ASU 2016-09. The standard requires recognition immediately in the tax provision of certain results of share-based payments that were possibly deferred under the previous guidance. Excluding the effects of applying the new standard, the effective tax rate for the six months ended June 30, 2017 was 31.6%.

Income from continuing operations in the first six months of 2017 was \$46,239, or \$1.38 per diluted share, versus \$35,655, or \$1.09 per diluted share in the same period a year ago.

Liquidity and Capital Resources

During the first six months of 2017, cash provided by operations was \$37,077 versus \$65,391 in the same period a year ago. This decrease was primarily due to a \$39,000 advance payment received in the first quarter of 2016.

Cash flows used in investing activities in the first six months of 2017 mostly related to capital expenditures of \$22,862 compared to \$26,553 in the same period a year ago. Capital expenditures in the first six months of 2017 and 2016 primarily expanded the Company's manufacturing capacity to support expected growth.

Cash flows provided by financing activities in the first six months of 2017 were \$2,973 compared to \$30,559 used in financing activities in the same period a year ago. The 2016 cash flows primarily relate to the pay down of the Company's debt.

The Company expects to spend approximately \$70,000 to \$75,000 on capital expenditures during 2017.

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.

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. Our largest product (31.6% of 2016 sales), is used by our customer to produce an anti-viral drug. Our customer's sales of this drug have been trending downwards and, accordingly, we expect our sales of this product to our customer to also trend downwards over the next few years.

As discussed more fully in Note 11 to the Consolidated Financial Statements, the Company continually receives additional information to develop estimates to record reserves for remediation activities at Berry's Creek and other environmental sites. 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

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.

See the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the period ended December 31, 2016 for further explanation of factors that may negatively impact the Company’s cash flows.

Impact of Recent Accounting Pronouncements

The following accounting pronouncements became effective for the Company in the first six months of 2017:

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 became effective for the Company on January 1, 2017. The new standard requires recognition of excess tax benefits that had not previously been recognized. The Company had no remaining unrecognized excess tax benefits as of December 31, 2016. All excess tax benefits and deficiencies in future periods will be recorded as part of the current period tax provision within the Income Statement. This will result in increased volatility in the Company's effective tax rate. During the first six months of 2017, the Company recognized a tax benefit of \$4,379 which lowered the effective tax rate by 7.1%. No other provisions in this new standard had a significant impact on the consolidated financial statements including the Company's accounting policy election to account for forfeitures when they occur.

To conform to the current year presentation, the Company reclassified \$770 of excess tax benefits under financing activities to operating activities for the six months ended June 30, 2016 on the consolidated statement of cash flows.

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 update became effective on January 1, 2017 and did not have a material impact on the Company's consolidated financial statements.

The following recently issued accounting pronouncements will become effective for the Company in the future:

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have a material impact on its consolidated financial statements.

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have a material impact on its consolidated financial statements.

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 does not expect this new guidance to have a material impact 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. At this time, the Company has no financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. This adjustment will not be material to the Company, assuming there is not an increase in lease activity.

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. Numerous updates were issued in 2016 that provide clarification on a number of specific issues as well as requiring additional disclosures. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period.

The Company continues to evaluate the impact of adoption of the new standard. As part of this evaluation, the Company has identified the revenue streams and reviewed the related critical customer contract terms and provisions. The Company has concluded that the timing of the recognition of revenue for certain products that was previously recognized upon delivery will be recognized over time utilizing a measure of progress toward satisfaction of the performance obligations. These products, which represented 63% of 2016 net revenue, are typically manufactured exclusively for specific customers and have no other alternative use. Generally, under these customer agreements, Cambrex is entitled to compensation for progress to date that includes an element of profit margin. The Company expects to adopt the new standard using the modified retrospective method. Upon adoption of the new standard, the Company will be required to make an estimate of the progress completed to date for these products and record the net effect as a cumulative effect adjustment in the equity section. This adjustment will cause the 2018 Income Statement to have lower sales and associated costs since they will be recorded in equity at adoption. Depending on the amount of these projects in process at the end of 2017, the adjustment could be significant. The Company will also record a contract asset for the unbilled revenue and a reduction in inventory. The Company continues to assess the impact of the related disclosures as well as finalizing a methodology and process for recognizing product revenue over time.

Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

In March 2017, the FASB issued ASU 2017-07 which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined pension and other postretirement plans. The ASU requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such subtotal is presented. The ASU also requires entities to disclose the income statement lines that contain the other components if they are not presented separately. The ASU's amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have an impact on its consolidated financial statements.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 which simplifies the goodwill impairment test by eliminating Step 2 in the determination on whether goodwill should be considered impaired. Instead, an impairment charge should equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Scope of Modification Accounting, Stock Based Compensation

In May 2017, the FASB issued ASU 2017-09 which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard 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 six months of 2017. 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, 2016.

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 11 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 six months of 2017. 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, 2016.

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 June 30, 2017 and December 31, 2016, (ii) Consolidated Income Statements for the three and six months ended June 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, 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/ Tom G. Vadaketh
Tom G. Vadaketh

Executive Vice President and

Chief Financial Officer

(On behalf of the Registrant and as the
Registrant's Principal Financial Officer)

Dated: August 4, 2017

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