

CAMBREX CORP
Form 10-Q
May 06, 2009

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

FORM 10-Q

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

for the quarterly period ended March 31, 2009

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
(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 twelve 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

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(Do not check if a smaller reporting company)

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

As of April 28, 2009, there were 29,221,881 shares outstanding of the registrant's Common Stock, \$.10 par value.

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CAMBREX CORPORATION AND SUBSIDIARIES

Form 10-Q

For The Quarter Ended March 31, 2009

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,717	\$ 32,540
Trade receivables, net	37,249	36,685
Inventories, net	60,508	61,133
Prepaid expenses and other current assets	9,093	8,798
Total current assets	138,567	139,156
Property, plant and equipment, net	153,735	161,500
Goodwill	34,145	35,374
Other non-current assets	4,352	5,042
Total assets	\$ 330,799	\$ 341,072
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,625	\$ 19,700
Accrued expense and other current liabilities	37,735	45,080
Total current liabilities	57,360	64,780
Long-term debt	127,000	123,800
Deferred income tax	15,414	16,138
Accrued pension and postretirement benefits	42,727	44,165
Other non-current liabilities	16,144	17,403
Total liabilities	258,645	266,286
Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued 31,406,778 shares at respective dates	3,140	3,140
Additional paid-in capital	99,986	99,881
Retained earnings	16,698	11,960
Treasury stock, at cost, 2,193,115 and 2,224,613 shares at respective dates	(18,721)	(19,014)
Accumulated other comprehensive loss	(28,949)	(21,181)
Total stockholders' equity	72,154	74,786
Total liabilities and stockholders' equity	\$ 330,799	\$ 341,072

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 March 31,	
	2009	2008
Gross sales	\$ 60,000	\$ 61,706
Allowances and rebates	333	391
Net sales	59,667	61,315
Other revenues	1,365	(325)
Net revenues	61,032	60,990
Cost of goods sold	41,899	39,061
Gross profit	19,133	21,929
Operating expenses:		
Selling, general and administrative expenses	9,048	11,334
Research and development expenses	1,737	2,256
Restructuring expenses	-	634
Strategic alternative costs	-	177
Total operating expenses	10,785	14,401
Operating profit	8,348	7,528
Other expenses/(income):		
Interest expense, net	1,157	706
Other income, net	(67)	(125)
Income before income taxes	7,258	6,947
Provision for income taxes	2,520	2,701
Net income	\$ 4,738	\$ 4,246
Earnings per share of common stock:		
Basic	\$ 0.16	\$ 0.15
Diluted	\$ 0.16	\$ 0.15
Weighted average shares outstanding:		
Basic	29,200	29,035
Effect of dilutive stock based compensation	3	58
Diluted	29,203	29,093

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 4,738	\$ 4,246
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	4,686	5,149
Increase in inventory reserve	2,446	780
Stock based compensation included in net income	373	311
Other	120	560
Changes in assets and liabilities:		
Trade receivables	(1,353)	5,204
Inventories	(3,826)	(10,999)
Prepaid expenses and other current assets	(1,145)	(2,262)
Accounts payable and other current liabilities	(7,210)	(11,921)
Other non-current assets and liabilities	(444)	(2,680)
Net cash used in operating activities	(1,615)	(11,612)
Cash flows from investing activities:		
Capital expenditures	(1,002)	(5,176)
Acquisition of business, net of cash	-	(1,216)
Other investing activities	-	(14)
Net cash used in investing activities	(1,002)	(6,406)
Cash flows from financing activities:		
Long-term debt activity (including current portion):		
Borrowings	14,300	23,200
Repayments	(11,113)	(5,205)
Other financing activities	(25)	(44)
Net cash provided by financing activities	3,162	17,951
Effect of exchange rate changes on cash and cash equivalents	(1,368)	1,580
Net (decrease)/increase in cash and cash equivalents	(823)	1,513
Cash and cash equivalents at beginning of period	32,540	38,488
Cash and cash equivalents at end of period	\$ 31,717	\$ 40,001

See accompanying notes to unaudited consolidated financial statements.

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

(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, 2008.

The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results expected for the full year.

(2) Impact of Recently Issued Accounting Pronouncements

Fair Value Measurements

The Company adopted Financial Accounting Standards Board ("FASB") Statement No. 157 "Fair Value Measurements" related to nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement applies whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. The effect of adopting this pronouncement did not have a material impact on the Company's financial position or results of operations.

Amendment of FAS 133

The Company adopted FASB Statement No. 161 "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("FAS 161") effective January 1, 2009. This statement requires enhanced disclosures about derivative and hedging activities and thereby improves the transparency of financial reporting. FAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The effect of adopting this pronouncement did not have an impact on the Company's financial position or results of operations.

Employers' Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FSP 132(R)-1 "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP 132(R)-1"). This statement provides guidance on additional disclosures about plan assets of a defined benefit pension or other postretirement plan. This statement is effective for fiscal years ending after December 15, 2009. Upon initial application, the provisions of FSP 132(R)-1 are not required for earlier periods that are presented for comparative purposes. The Company is currently evaluating the disclosure requirements of this new statement.

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CAMBREX CORPORATION AND SUBSIDIARIES

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

(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 three months ended March 31, 2009 was \$1.55. For the three months ended March 31, 2009 and 2008, the Company recorded \$154 and \$103, respectively, in selling, general and administrative expenses for stock options. The \$103 recorded in the first quarter 2008 includes \$27 recorded in strategic alternative costs as a result of a modification to previous stock option awards related to a special dividend declared in 2007. As of March 31, 2009, the total compensation cost related to unvested stock option awards granted to employees but not yet recognized was \$1,637. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 3.3 years.

For the three months ended March 31, 2009 and 2008, the Company recorded \$202 and \$208, respectively, in selling, general and administrative expenses for restricted stock awards. As of March 31, 2009 the total compensation cost related to unvested restricted stock granted, but not yet recognized was \$757. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.1 years.

The following table is a summary of the Company's stock option activity issued to employees and related information:

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2009	1,590,869	\$ 14.07
Granted	20,000	\$ 4.17
Exercised	-	-
Forfeited or expired	(2,000)	\$ 12.97
Outstanding at March 31, 2009	1,608,869	\$ 13.27
Exercisable at March 31, 2009	755,425	\$ 22.02

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CAMBREX CORPORATION AND SUBSIDIARIES

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

(3) Stock Based Compensation (continued)

A summary of the Company's nonvested stock options and restricted stock as of March 31, 2009 and changes during the three months ended March 31, 2009, are presented below:

	Nonvested Stock Options		Nonvested Restricted Stock	
	Number of	Weighted-Average	Number of	Weighted-Average
	Shares	Grant-Date	Shares	Grant-Date
		Fair Value		Fair Value
Nonvested at January 1, 2009	833,819	\$ 5.55	143,327	\$ 13.38
Granted	20,000	\$ 4.17	16,182	\$ 2.23
Vested during period	(375)	\$ 7.71	(31,753)	\$ 12.31
Forfeited	-	-	-	-
Nonvested at March 31, 2009	853,444	\$ 5.51	127,756	\$ 12.24

(4) Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2009, are as follows:

Balance as of January 1, 2009	\$ 35,374
Translation effect	(1,229)
Balance as of March 31, 2009	\$ 34,145

(5) Income Taxes

The Company recorded tax expense of \$2,520 and \$2,701 in the three months ended March 31, 2009 and 2008, respectively. This change is due to differences in the geographic mix of pre-tax earnings and the enactment of reduced tax rates in Sweden.

The Company maintains a full valuation allowance against its domestic, and certain foreign, net deferred tax assets and will continue to do so until an appropriate level of profitability is sustained or tax strategies can be developed that would enable the Company to conclude that it is more likely than not that a portion of these net deferred assets would be realized. As such, improvements in pre-tax income in the future, within these jurisdictions where the Company maintains a valuation allowance, may result in these tax benefits ultimately being realized. However, there is no assurance that such improvements will be achieved.

As of January 1, 2009 the Company had approximately \$1,697 of unrecognized tax benefits, excluding gross interest and penalties. During the three months ended March 31, 2009, the Company increased its unrecognized tax benefits by \$24 for current year positions, which is offset by a decrease in unrecognized tax benefits of \$12, due to foreign currency translation. Of the \$12, the current period's provision includes no benefit. Of the total balance of unrecognized tax benefits at March 31, 2009 \$1,003, if recognized, would affect the effective tax rate.

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (Continued)

(dollars in thousands, except share data)

(5) Income Taxes (continued)

In the next twelve months the Company may decrease the reserve for unrecognized tax benefits for intercompany transactions by approximately \$250 mainly due to the expiration of a statute of limitation period. This item would impact the income tax provision.

In September 2008 the Company was selected for a random IRS examination for tax year 2006. The examination is in process and no adjustments have been proposed to date. Tax years 2005 and 2007 remain open to examination within the U.S. The Company is also subject to exams in its significant non-U.S. jurisdictions for 2004 and 2007 forward.

The Company is also subject to audits in various states for various years in which it has filed income tax returns. In March 2009 New Jersey commenced an examination of the Company's open tax years. Recently finalized state audits resulted in immaterial adjustments. Open years for the majority of states where the Company files are 2005 and forward.

(6) Net Inventories

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

Net inventories at March 31, 2009 and December 31, 2008 consist of the following:

	March 31, 2009	December 31, 2008
Finished goods	\$ 21,782	\$ 24,657
Work in process	22,130	22,372
Raw materials	13,272	10,688
Supplies	3,324	3,416
Total	\$ 60,508	\$ 61,133

(7) Strategic Alternative Costs and Restructuring Expenses

Strategic Alternative Costs

Strategic alternative costs include expenses that the Company has incurred related to the decision to sell the businesses that comprised the Bioproducts and Biopharma segments in February 2007 and costs associated with a project to streamline the Company's legal structure. These costs are not considered part of either the restructuring program or discontinued operations under current accounting guidance.

Strategic alternative costs for the three months ended March 31, 2008 were \$177, primarily consisting of costs associated with the project to streamline the Company's legal structure, change-in-control benefits, and costs associated with the modification of employee stock options due to the payment of the special dividend in connection with the divestiture discussed above.

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (Continued)

(dollars in thousands, except share data)

(7) Strategic Alternative Costs and Restructuring Expenses (continued)

Restructuring Expenses

Corporate Office Restructuring

During 2007, the Company announced a plan to eliminate certain employee positions at the corporate office upon completion of the sale of the businesses that comprised the Bioproducts and Biopharma segments. This plan included certain one-time benefits for terminated employees. Costs related to this plan are recorded as restructuring expenses in the income statement. For the three months ended March 31, 2008, the Company recognized expense of \$73.

Consolidation of Domestic Research and Development Activities

In December 2007, the Company consolidated its United States research and development (“R&D”) activities and small scale active pharmaceutical ingredient (“API”) production with its facility in Charles City, Iowa. The restructuring reserve at December 31, 2008 consisted of the remaining lease payments and related costs under the Company’s current operating lease at the New Jersey R&D facility. Costs related to this plan are recorded as restructuring expenses on the income statement. The operating lease expires in December 2010. Costs related to this consolidation are recorded as restructuring expenses on the income statement. For the three months ended March 31, 2008 an additional charge of \$561 was recognized consisting of rent and related costs.

The following table reflects the activity related to the restructuring reserves through March 31, 2009:

	December 31, 2008 Reserve Balance	2009 Activity Expense	Cash Payments	March 31, 2009 Reserve Balance
Employee termination costs	\$ 462	\$ -	\$ (259)	\$ 203
Lease payments and related costs	3,021	-	(416)	2,605
	\$ 3,483	\$ -	\$ (675)	\$ 2,808

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

(8) Derivatives and Hedging Activities

In March of 2008, the FASB issued FAS 161. FAS 161 requires entities to provide enhanced disclosure about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("FAS 133") and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. The Company adopted FAS 161 during the quarter ended March 31, 2009.

The Company operates internationally and, in the normal course of business, is exposed to fluctuations in foreign exchange rates and interest rates. These fluctuations can increase the costs of financing, investing and operating the business. The Company uses derivative financial instruments to reduce these exposures to market risks resulting from fluctuations in interest rates and foreign exchange rates.

By nature, all financial instruments involve market and credit risks. The Company is exposed to credit losses in the event of nonperformance 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's policy is to enter into forward exchange contracts to hedge forecasted cash flows associated with foreign currency transaction exposures which are accounted for as cash flow hedges, as deemed appropriate. This hedging strategy mitigates the impact of short-term foreign exchange rate movements on the Company's operating results primarily in Sweden and Italy. The Company's primary market risk relates to exposures to foreign currency exchange rate fluctuations on transactions entered into by these international operations that are denominated primarily in U.S. dollars, Swedish krona, and Euros. As a matter of policy, the Company does not hedge to protect the translated results of foreign operations.

The Company's forward exchange contracts substantially offset gains and losses on the transactions being hedged. The forward exchange contracts have varying maturities with none exceeding twelve months. The Company makes net settlements for forward exchange contracts at maturity, based upon negotiated rates at inception of the contracts.

All forward contracts outstanding at March 31, 2009 have been designated as cash flow hedges and, accordingly, changes in the fair value of these derivatives are not included in earnings but are included in accumulated other comprehensive (loss)/income ("AOCI"). Changes in the fair value of the derivative instruments reported in AOCI will be reclassified into earnings as a component of product revenue or expense, as applicable, when the forecasted transaction occurs. The ineffective portion of all hedges is recognized in current-period earnings and is immaterial to the Company's financial results.

The notional amounts of foreign exchange forward contracts were \$16,422 and \$20,568 at March 31, 2009 and December 31, 2008, respectively.

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

(8) Derivatives and Hedging Activities (continued)

The following table summarizes the fair value and balance sheet accounts where the Company's forward exchange contracts designated as hedging instruments are recorded as of March 31, 2009:

Balance Sheet Account	Fair Value
Other current assets	\$ 88
Other current liabilities	\$ 1,041

The Company recognized a pre-tax loss in other comprehensive income from foreign exchange contracts of \$275 for the three months ended March 31, 2009. The Company reclassified a pre-tax gain of \$180 from AOCI into other revenue related to foreign exchange contracts for the three months ended March 31, 2009. Assuming current market conditions continue, the entire amount recorded in AOCI is expected to be reclassified into other revenue within the next 12 months to reflect the fixed prices obtained from the forward contracts.

Interest Rate Swap Agreements

The Company enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. The swap agreements are contracts to exchange floating rate for fixed interest payments periodically over the life of the agreements without the exchange of the underlying notional debt amounts.

All swap contracts outstanding at March 31, 2009 have been designated as cash flow hedges and, accordingly, changes in the fair value of derivatives are recorded each period in AOCI. Changes in the fair value of the derivative instruments reported in AOCI will be reclassified into earnings in the period in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current-period earnings and is immaterial to the Company's financial results.

As of March 31, 2009, the Company had three interest rate swaps in place with an aggregate notional value of \$60,000, at an average fixed rate of 4.48%, and with maturity dates of October 2010. The Company's strategy has been to cover a portion of its outstanding bank debt with interest rate protection. At March 31, 2009, the coverage was approximately 47% of the Company's variable interest rate debt. At March 31, 2009 the Company had variable debt of \$127,000, of which \$60,000 is fixed by interest rate swaps. Interest expense under these agreements, and the respective debt instruments that they hedge, are recorded at the net effective interest rate of the hedged transactions. The fair value of these agreements was based on quoted market prices and was in a loss position of \$3,390 at March 31, 2009. This loss is reflected in the balance sheet under the caption "Accrued expenses and other current liabilities."

The Company increased other comprehensive income \$150 related to interest rate swaps for the three months ended March 31, 2009. The Company reclassified a pre-tax loss of \$605 from AOCI into interest expense related to interest rate swaps for the three months ended March 31, 2009. Assuming current market conditions continue, approximately \$2,154 is expected to be reclassified out of AOCI into interest expense within the next 12 months.

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

(9) Comprehensive (Loss)/Income

The following table shows the components of comprehensive (loss)/income for the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	2008
Net income	\$ 4,738	\$ 4,246
Foreign currency translation	(8,217)	13,809
Unrealized gain/(loss) on hedging contracts, net of tax	181	(1,768)
Pension, net of tax	268	132