

CAMBREX CORP  
Form 10-Q  
August 04, 2010

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

FORM 10-Q

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

for the quarterly period ended June 30, 2010

OR

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 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,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of July 31, 2010, there were 29,384,588 shares outstanding of the registrant’s Common Stock, \$.10 par value.

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## CAMBREX CORPORATION AND SUBSIDIARIES

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## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|   | June 30,<br>2010<br>(unaudited) | December<br>31,<br>2009 |
|---|---------------------------------|-------------------------|
| <b>ASSETS</b>   |                                 |                         |
| Current assets:   |                                 |                         |
| Cash and cash equivalents   | \$23,086                        | \$52,365                |
| Trade receivables, net  | 32,526                          | 32,025                  |
| Inventories, net  | 57,330                          | 58,369                  |
| Prepaid expenses and other current assets   | 8,146                           | 6,654                   |
| <b>Total current assets</b>   | <b>121,088</b>                  | <b>149,413</b>          |
| Property, plant and equipment, net  | 140,808                         | 161,149                 |
| Goodwill and intangible assets, net   | 38,216                          | 36,360                  |
| Other non-current assets  | 3,901                           | 4,593                   |
| <b>Total assets</b>   | <b>\$304,013</b>                | <b>\$351,515</b>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                         |
| Current liabilities:  |                                 |                         |
| Accounts payable  | \$15,669                        | \$17,038                |
| Accrued expenses and other current liabilities  | 34,137                          | 38,013                  |
| <b>Total current liabilities</b>  | <b>49,806</b>                   | <b>55,051</b>           |
| Long-term debt  | 100,000                         | 120,800                 |
| Deferred income tax   | 15,460                          | 17,305                  |
| Accrued pension and postretirement benefits   | 38,940                          | 40,963                  |
| Other non-current liabilities   | 13,021                          | 14,126                  |
| <b>Total liabilities</b>  | <b>217,227</b>                  | <b>248,245</b>          |
| Stockholders' equity:   |                                 |                         |
| Common stock, \$.10 par value; authorized 100,000,000, issued 31,408,778 shares at respective dates | 3,140                           | 3,140                   |
| Additional paid-in capital  | 101,088                         | 100,497                 |
| Retained earnings   | 28,799                          | 22,345                  |
| Treasury stock, at cost, 2,069,755 and 2,121,372 shares at respective dates                         | (17,653 )                       | (18,109 )               |
| Accumulated other comprehensive loss  | (28,588 )                       | (4,603 )                |
| <b>Total stockholders' equity</b>   | <b>86,786</b>                   | <b>103,270</b>          |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$304,013</b>                | <b>\$351,515</b>        |

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<br>June 30, |          | Six months ended<br>June 30, |           |
|--|--------------------------------|----------|------------------------------|-----------|
|  | 2010                           | 2009     | 2010                         | 2009      |
| Gross sales                                  | \$57,403                       | \$59,766 | \$113,558                    | \$119,766 |
| Allowances and rebates                       | 376                            | 5        | 712                          | 338       |
| Net sales                                    | 57,027                         | 59,761   | 112,846                      | 119,428   |
| Other revenues                               | 1,190                          | (480 )   | 1,464                        | 885       |
| Net revenues                                 | 58,217                         | 59,281   | 114,310                      | 120,313   |
| Cost of goods sold                           | 40,284                         | 39,598   | 81,884                       | 81,497    |
| Gross profit                                 | 17,933                         | 19,683   | 32,426                       | 38,816    |
| Operating expenses:                          |                                |          |                              |           |
| Selling, general and administrative expenses | 8,184                          | 8,546    | 16,980                       | 17,594    |
| Research and development expenses            | 2,841                          | 2,161    | 4,826                        | 3,898     |
| Total operating expenses                     | 11,025                         | 10,707   | 21,806                       | 21,492    |
| Operating profit                             | 6,908                          | 8,976    | 10,620                       | 17,324    |
| Other expenses/(income):                     |                                |          |                              |           |
| Interest expense, net                        | 1,171                          | 1,142    | 2,369                        | 2,299     |
| Other expenses/(income), net                 | 14                             | (41 )    | 17                           | (108 )    |
| Income before income taxes                   | 5,723                          | 7,875    | 8,234                        | 15,133    |
| Provision for income taxes                   | 2,057                          | 2,416    | 2,885                        | 4,936     |
| Income from continuing operations            | \$3,666                        | \$5,459  | \$5,349                      | \$10,197  |
| Income from discontinued operations          | 1,105                          | -        | 1,105                        | -         |
| Net income                                   | \$4,771                        | \$5,459  | \$6,454                      | \$10,197  |
| Basic earnings per share of common stock:    |                                |          |                              |           |
| Income from continuing operations            | \$0.12                         | \$0.19   | \$0.18                       | \$0.35    |
| Income from discontinued operations          | \$0.04                         | \$-      | \$0.04                       | \$-       |
| Net income                                   | \$0.16                         | \$0.19   | \$0.22                       | \$0.35    |

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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Diluted earnings per share of common stock: |        |        |        |        |
| Income from continuing operations           | \$0.12 | \$0.19 | \$0.18 | \$0.35 |
| Income from discontinued operations         | \$0.04 | \$-    | \$0.04 | \$-    |
| Net income                                  | \$0.16 | \$0.19 | \$0.22 | \$0.35 |
| Weighted average shares outstanding:        |        |        |        |        |
| Basic                                       | 29,333 | 29,222 | 29,324 | 29,211 |
| Effect of dilutive stock based compensation | 71     | 25     | 78     | 16     |
| Diluted                                     | 29,404 | 29,247 | 29,402 | 29,227 |

See accompanying notes to unaudited consolidated financial statements.

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

|  | Six months ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2010                         | 2009      |
| Cash flows from operating activities:                        |                              |           |
| Net income   | \$6,454                      | \$10,197  |
| Adjustments to reconcile net income to cash flows:           |                              |           |
| Depreciation and amortization                                | 10,610                       | 9,415     |
| Increase in inventory reserve                                | 259                          | 2,274     |
| Stock based compensation included in net income              | 1,003                        | 731       |
| Deferred income tax provision                                | (214 )                       | (118 )    |
| Other  | (164 )                       | (212 )    |
| Changes in assets and liabilities:                           |                              |           |
| Trade receivables  | (2,442 )                     | 1,096     |
| Inventories  | (4,419 )                     | (5,122 )  |
| Prepaid expenses and other current assets                    | (1,717 )                     | (361 )    |
| Accounts payable and other current liabilities               | (255 )                       | (3,856 )  |
| Other non-current assets and liabilities                     | 963                          | 19        |
| Discontinued operations:                                     |                              |           |
| Non-cash net benefit   | (1,105 )                     | -         |
| Net cash provided by operating activities                    | 8,973                        | 14,063    |
| Cash flows from investing activities:                        |                              |           |
| Capital expenditures   | (5,097 )                     | (6,359 )  |
| Acquisition of business, net of cash                         | (6,897 )                     | -         |
| Other investing activities                                   | -                            | 38        |
| Net cash used in investing activities                        | (11,994 )                    | (6,321 )  |
| Cash flows from financing activities:                        |                              |           |
| Long-term debt activity (including current portion):         |                              |           |
| Borrowings   | 7,300                        | 18,500    |
| Repayments   | (28,100 )                    | (19,000 ) |
| Other financing activities                                   | (46 )                        | (38 )     |
| Net cash used in financing activities                        | (20,846 )                    | (538 )    |
| Effect of exchange rate changes on cash and cash equivalents | (5,412 )                     | 577       |
| Net (decrease)/increase in cash and cash equivalents         | (29,279 )                    | 7,781     |
| Cash and cash equivalents at beginning of period             | 52,365                       | 32,540    |
| Cash and cash equivalents at end of period                   | \$23,086                     | \$40,321  |

See accompanying notes to unaudited consolidated financial statements.





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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(dollars in thousands, except share data)

(Unaudited)

(1) Basis of Presentation

Unless otherwise indicated by the context, "Cambrex" or the "Company" means Cambrex Corporation and subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2009.

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

For the three and six months ended June 30, 2010 the Company recorded a benefit of \$1,652 as a result of the expiration of a contingent liability and charges of \$547 for environmental remediation related to sites of divested businesses as discontinued operations.

(2) Impact of Recently Issued Accounting Pronouncements

Fair Value Measurements

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

Revenue Arrangements with Multiple Deliverables

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

modified beginning January 1, 2010. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

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

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

## Revenue Recognition – Milestone Method

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

## (3) Stock Based Compensation

The Company recognizes compensation costs for stock option awards to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for stock options granted to employees during the three and six months ended June 30, 2010 was \$2.45. The weighted-average fair value per share for stock options granted to employees during the three and six months ended June 30, 2009 was \$1.26 and \$1.77, respectively.

For the three months ended June 30, 2010 and 2009, the Company recorded \$296 and \$158, respectively, in selling, general and administrative expenses for stock options. For the six months ended June 30, 2010 and 2009, the Company recorded \$553 and \$312, respectively, in selling, general and administrative expenses for stock options. As of June 30, 2010, the total compensation cost related to unvested stock options not yet recognized was \$2,733. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.9 years.

For the three months ended June 30, 2010 and 2009, the Company recorded \$198 and \$183, respectively, in selling, general and administrative expenses for restricted stock awards. For the six months ended June 30, 2010 and 2009, the Company recorded \$393 and \$385, respectively, in selling, general and administrative expenses for restricted stock awards. As of June 30, 2010 the total compensation cost related to unvested restricted stock not yet recognized was \$638. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.4 years.

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

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

|                              |         |    |       |
|------------------------------|---------|----|-------|
| Exercisable at June 30, 2010 | 674,254 | \$ | 13.34 |
|------------------------------|---------|----|-------|

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

## (3) Stock Based Compensation (continued)

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

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

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

## (4) Goodwill and Intangible Assets

In March 2010 the Company acquired IEP GmbH ("IEP") for approximately \$6,900 in cash. The allocation of the fair value of the acquisition resulted in goodwill of \$1,922 and acquired intangible assets of \$4,454. The acquired intangible assets consist mostly of patented technology and customer contracts with amortization periods ranging from 10 years to 20 years.

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

|                               |          |
|-------------------------------|----------|
| Balance as of January 1, 2010 | \$36,360 |
| Acquisition of IEP            | 1,922    |
| Translation effect            | (4,461 ) |
| Balance as of June 30, 2010   | \$33,821 |

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

## (4) Goodwill and Intangible Assets (continued)

Acquired intangible assets, which will continue to be amortized, consist of the following:

|                              | Amortization<br>Period | Gross<br>Carrying<br>Amount | As of June 30, 2010         |                        |
|------------------------------|------------------------|-----------------------------|-----------------------------|------------------------|
|                              |                        |                             | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Technology-Based Intangibles | 20 years               | \$ 3,730                    | \$ (47 )                    | \$ 3,683               |
| Customer-Related Intangibles | 10 - 15 years          | 724                         | (12 )                       | 712                    |
|                              |                        | \$ 4,454                    | \$ (59 )                    | \$ 4,395               |

Amortization expense was \$59 for the three and six months ended June 30, 2010.

Amortization expense related to current intangible assets is expected to be approximately \$177 for 2010 and \$236 in each of the next four years.

## (5) Income Taxes

The Company recorded tax expense of \$2,057 and \$2,885 in the three and six months ended June 30, 2010, respectively, compared to \$2,416 and \$4,936 in the three and six months ended June 30, 2009, respectively. The decrease is due primarily to lower pre-tax earnings.

The Company maintains a full valuation allowance against its domestic, and certain foreign, 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 deferred tax 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, 2010 the Company had approximately \$4,598 of unrecognized tax benefits, excluding gross interest and penalties. During the three and six months ended June 30, 2010, the Company decreased its unrecognized tax benefits by \$443 and \$958, respectively, primarily for foreign currency translation. Of the total balance of unrecognized tax benefits at June 30, 2010 approximately \$2,910, if recognized, would impact the effective tax rate.

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. Tax years 2007 and forward remain open to examination within the U.S. The Company is also subject to examinations in its significant non-U.S. jurisdictions for 2005 and 2007 forward.



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

## (5) Income Taxes (continued)

The Company is also subject to audits in various states for various years in which it has filed income tax returns. In June 2010, New York notified the Company that it would commence an examination of the Company's open tax years. Previous state audits have resulted in immaterial adjustments. Open years for the majority of states where the Company files are 2006 and forward.

In 2009, the Company's Italian subsidiary was examined by the Italian tax authorities, who challenged the business purpose of the deductibility of certain intercompany transactions from 2003. In the fourth quarter of 2009, the tax authorities notified the Company that they disagreed with the Company's responses to their formal assessments. In the first quarter of 2010, the Company filed an appeal to litigate the matter. The Company has analyzed these issues in accordance with guidance on uncertain tax positions and believes its reserves are adequate, and intends to defend itself.

## (6) Net Inventories

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

Net inventories at June 30, 2010 and December 31, 2009 consist of the following:

|                 | June 30,<br>2010 | December<br>31,<br>2009 |
|-----------------|------------------|-------------------------|
| Finished goods  | \$ 23,428        | \$ 26,549               |
| Work in process | 19,845           | 18,361                  |
| Raw materials   | 11,002           | 9,887                   |
| Supplies        | 3,055            | 3,572                   |
| Total           | \$ 57,330        | \$ 58,369               |

## (7) Restructuring Expenses

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 June 30, 2010 consisted of the remaining lease payments and related costs under the Company's current operating lease at the New Jersey R&D facility. The operating lease expires in December 2010.

The following table reflects the activity related to the restructuring reserves through June 30, 2010:

| December<br>31, 2009<br>Reserve | 2010 Activity<br>Cash | June 30,<br>2010<br>Reserve |
|---------------------------------|-----------------------|-----------------------------|
|---------------------------------|-----------------------|-----------------------------|

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|                                  | Balance | Expense | Payments | Balance |
|----------------------------------|---------|---------|----------|---------|
| Lease payments and related costs | \$1,473 | \$-     | \$(742 ) | \$731   |

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

(8) Derivatives and Hedging Activities

The Company operates internationally and is exposed to fluctuations in foreign exchange rates and interest rates in the normal course of business. 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.

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 as deemed appropriate. This hedging strategy mitigates the impact of short-term foreign exchange rate movements on the Company's operating results. The Company's primary exposures to foreign currency exchange rate fluctuations are in U.S. dollars, Swedish krona, and euros.

Changes in the fair value of forward contracts designated as cash flow hedges 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 when the forecasted transaction occurs. The ineffective portion of all hedges will be recognized in current-period earnings and has been immaterial to the Company's financial results.

The notional amounts of foreign exchange forward contracts were \$15,643 and \$15,781 at June 30, 2010 and December 31, 2009, respectively.

Included in AOCI is the fair value of the Company's forward exchange contracts which is in a net loss position of \$177 as of June 30, 2010 and a net gain position of \$310 as of December 31, 2009. Gains are recorded in the Company's balance sheet under the caption "Prepaid expenses and other current assets" and losses are recorded under the caption "Accrued expenses and other current liabilities."

The Company recognized a pre-tax loss in "Other comprehensive loss" from foreign exchange contracts of \$351 and \$487 for the three and six months ended June 30, 2010, respectively. The Company reclassified a pre-tax gain of \$777 and \$1,090 from AOCI into "Other revenue" related to foreign exchange forward contracts for the three and six months ended June 30, 2010, respectively. Assuming current market conditions continue, the entire amount recorded in AOCI related to foreign exchange forward contracts is expected to be recorded into "Other revenue" within the next 12 months.

Interest Rate Swap Agreements

The Company entered 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.



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

## (8) Derivatives and Hedging Activities (continued)

All swap contracts outstanding at June 30, 2010 have been designated as cash flow hedges and, accordingly, changes in the fair value of these derivatives are not recorded in earnings but are recorded each period in AOCI. Changes in the fair value of the derivative instruments reported in AOCI will be recorded into earnings as interest expense over the remaining life of the swap agreement. The ineffective portion of all hedges will be recognized in current-period earnings and has been immaterial to the Company's financial results.

As of June 30, 2010, 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%, all with maturity dates of October 2010. The Company's strategy has been to cover a portion of its outstanding floating rate bank debt with fixed interest rate protection. At June 30, 2010 the Company had variable debt of \$100,000, 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 \$834 and \$2,038 at June 30, 2010 and December 31, 2009, respectively. This loss is reflected in the Company's balance sheet under the caption "Accrued expenses and other current liabilities."

The Company decreased other comprehensive loss by \$651 and \$1,204, respectively, related to interest rate swaps for the three and six months ended June 30, 2010. The Company reclassified a pre-tax loss of \$635 and \$1,272 from AOCI into interest expense related to interest rate swaps for the three and six months ended June 30, 2010, respectively. Assuming current market conditions continue, \$834 is expected to be reclassified out of AOCI within the next four months.

## (9) Fair Value Measurements

The following tables provide the fair value measured on a recurring basis for the assets and liabilities as of June 30, 2010 and December 31, 2009:

| Description                            | Total             | Fair Value Measurements at June 30, 2010 using:                |   |   |
|--|-------------------|--|---|---|
|  |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Foreign currency forwards, liabilities | \$(177 )          | \$-  | \$(177 )                                      | \$ -                                      |
| Interest rate swaps                    | (834 )            | -  | (834 )  | -   |
| <b>Total</b>                           | <b>\$(1,011 )</b> | <b>\$-</b>   | <b>\$(1,011 )</b>                             | <b>\$ -</b>                               |

| Description                       | Fair Value Measurements at December 31, 2009 using: |  |   |   |
|-----------------------------------|---|--|---|---|
|                                   | Total   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Foreign currency forwards, assets | \$310   | \$-  | \$310   | \$ -                                      |
| Interest rate swaps               | (2,038 )  | -  | (2,038 )                                      | -   |
| Total                             | \$(1,728 )  | \$-  | \$(1,728 )                                    | \$ -                                      |

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

## (9) Fair Value Measurements (continued)

The Company's derivative assets and liabilities include foreign exchange forward contracts and interest rate swap contracts that are measured at fair value using observable market inputs such as forward rates, interest rates, the Company's credit risk and its counterparties' credit risks. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. Based on the Company's continued ability to enter into forward contracts and interest rate swaps, the Company considers the markets for its fair value instruments to be active.

As of June 30, 2010, there has not been any significant impact to the fair value of the Company's derivative liabilities due to its own credit risk. Similarly, there has not been any significant adverse impact to the Company's derivative assets based on the Company's evaluation of its counterparties' credit risks.

The Company's financial instruments also include cash and cash equivalents, accounts receivables, accounts payables and accrued liabilities. The carrying amount of these instruments approximates fair value because of their short-term nature.

## (10) Comprehensive (Loss)/Income

The following table shows the components of comprehensive (loss)/income for the three and six months ended June 30, 2010 and 2009:

|  | Three months ended |                  | Six months ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2010               | June 30,<br>2009 | 2010             | June 30,<br>2009 |
| Net income                                       | \$4,771            | \$5,459          | \$6,454          | \$10,197         |
| Foreign currency translation                     | (15,083 )          | 12,046           | (25,364 )        | 3,829            |
| Unrealized gain on hedging contracts, net of tax | 404                | 639              | 866              | 820              |
| Pension, net of tax                              | 256                | 271              | 513              | 539              |
| Total  | \$(9,652 )         | \$18,415         | \$(17,531 )      | \$15,385         |

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CAMBREX CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(dollars in thousands, except share data)  
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## (11) Retirement Plans

## Domestic Pension Plans

The components of net periodic benefit cost for the Company's domestic plans for the three and six months ended June 30, 2010 and 2009 are as follows:

|   | Three months ended<br>June 30, |        | Six months ended<br>June 30, |          |
|---|--------------------------------|--------|------------------------------|----------|
|   | 2010                           | 2009   | 2010                         | 2009     |
| Components of net periodic benefit cost |                                |        |                              |          |
| Interest cost                           | \$879                          | \$857  | \$1,759                      | \$1,714  |
| Expected return on plan assets          | (794 )                         | (731 ) | (1,588 )                     | (1,462 ) |
| Amortization of prior service costs     | 109                            | 109    | 218                          | 218      |
| Recognized actuarial loss               | 107                            | 136    | 214                          | 272      |
| Net periodic benefit cost               | \$301                          | \$371  | \$603                        | \$742    |

The Company's Supplemental Executive Retirement Plan is non-qualified and unfunded. Net periodic benefit costs for the three months ended June 30, 2010 and 2009 were \$73 and \$84, respectively. Net periodic benefit costs for the six months ended June 30, 2010 and 2009 were \$145 and \$168, respectively.

## International Pension Plan

The components of net periodic benefit cost for the Company's international plan for the three and six months ended June 30, 2010 and 2009 are as follows:

|   | Three months ended<br>June 30, |       | Six months ended<br>June 30, |       |
|---|--------------------------------|-------|------------------------------|-------|
|   | 2010                           | 2009  | 2010                         | 2009  |
| Components of net periodic benefit cost |                                |       |                              |       |
| Service cost                            | \$144                          | \$121 | \$289                        | \$242 |
| Interest cost                           | 214                            | 170   | 429                          | 340   |
| Recognized actuarial loss               | 26                             | 30    | 52                           | 60    |
| Amortization of prior service credit    | (1 )                           | (1 )  | (3 )                         | (2 )  |
| Net periodic benefit cost               | \$383                          | \$320 | \$767                        | \$640 |



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

(12) Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company continually assesses all known facts and circumstances as they pertain to all 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 have a material adverse effect on the Company's financial condition, operating results and cash flows in a future reporting period.

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 investigations and cleanups and, along with other companies, have been named a potentially responsible party ("PRP") for certain waste disposal sites ("Superfund sites"). Additionally, the Company has retained the liability for certain environmental proceedings associated with the discontinued operations of the Rutherford Chemicals business.

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 best 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 unfavorably against the Company. The resolution of such matters often spans several years and frequently involves regulatory oversight or adjudication. Additionally, many remediation requirements are not fixed and are likely to be affected by future technological, site, and regulatory developments. Consequently, the ultimate liability with respect to such matters, as well as the timing of cash disbursements cannot be determined with certainty.

In matters where the Company has been able to reasonably estimate its liability, the Company has accrued for the estimated costs associated with the study and remediation of sites not owned by the Company and the Company's current and former operating sites. These accruals were \$6,505 and \$6,163 at June 30, 2010 and December 31, 2009, respectively. The increase in the accrual includes adjustments to reserves of \$547, which was included in discontinued operations, partially offset by payments of \$77 and the impact of currency of \$128. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical, regulatory or legal information become available. Based upon available information and analysis, the Company's current accrual represents management's best estimate of the probable and estimable costs associated with environmental proceedings including amounts for investigation fees where full remediation costs may not be estimable at the reporting date. Given the uncertainties regarding 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 develop an estimate of the range of reasonably possible environmental loss in excess of its recorded liabilities.

CasChem

As a result of the sale of the 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 submitted a sampling plan to the New Jersey Department of Environmental Protection ("NJDEP") and is awaiting

approval. The results of the completed and proposed sampling, and any additional sampling deemed necessary, will be used to develop an estimate of the Company's future liability for remediation costs, if any.

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CAMBREX CORPORATION AND SUBSIDIARIES  
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(12) Contingencies (continued)

Cosan

In response to the NJDEP, the Company completed its initial investigation and submitted the results of the investigation and a proposed remediation plan to the NJDEP for its Cosan Clifton, New Jersey site. The NJDEP subsequently rejected the remediation plan and requested additional investigative work at the site and that work is on-going. The reserve was \$1,129 at June 30, 2010 which is based on the initial remedial action plan. The results of the additional investigative work may impact the remediation plan and costs.

Additionally, the Company has recorded a liability of \$908 for the Cosan Carlstadt, New Jersey site based on the investigations completed to date and the proposed remediation plan submitted to the NJDEP for their approval. The NJDEP has subsequently required the Company to perform additional investigative work prior to approval of the remediation plan. The results of this additional investigative work may impact the remediation plan and costs.

Berry's Creek

The Company received a notice from the United States Environmental Protection Agency ("USEPA") that two former operating subsidiaries of the Company are considered PRPs at the Berry's Creek Superfund Site in New Jersey. The operating companies 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 and feasibility study of the Berry's Creek Site. The Company has joined the group of PRPs and filed a response to the USEPA agreeing to jointly conduct or fund an appropriate remedial investigation and feasibility study of the Berry's Creek Site. The PRPs have engaged consultants to evaluate investigation and remedial alternatives and develop a method to allocate related costs among the PRPs. As of June 30, 2010, the Company's reserve was \$285 to cover the initial phase of investigation based on a tentative agreement on the allocation of the site investigation costs among the PRPs. The investigation is ongoing and at this time it is too early to predict the extent of any additional liabilities.

Maybrook and Harriman Sites

The Company's Nepera, Inc. subsidiary ("Nepera") is named a PRP of the Maybrook 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 of Nepera in 1986. The USEPA also issued the Company a Notice of Potential Liability and the Company signed a Consent Decree to complete the Record of Decision ("ROD") and has provided the USEPA with appropriate financial assurance to guarantee the obligation under the Consent Decree.

Nepera is also named a responsible party of its former Harriman, New York production facility by the New York State Department of Environmental Conservation. A final ROD was issued which describes the remediation plan for the site. Implementation of the ROD is on-going.

As of June 30, 2010, the reserve recorded on the books was \$1,350 and represents the Company's best estimate to complete both RODs.



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(12) Contingencies (continued)

Scientific Chemical Processing (“SCP”) Superfund Site

Nepera was named a PRP of the SCP Superfund site, located in Carlstadt, New Jersey, in the early 1980’s 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 Nepera. The PRPs are in the process of implementing a final remedy for soil and groundwater at the site. The SCP Superfund site has also been identified as a PRP in the Berry’s Creek Superfund site (see previous discussion). For over a decade, the remediation has been funded by de minimus settlements and by the insurers of the SCP Superfund site’s owners and operators. However, due to an unexpected increase in remediation costs at the site and costs to contribute to the Berry’s Creek investigation, the PRP group has recently proposed the assessment of an additional cash contribution by the PRP group. While the Company disputes the methodology used by the PRP group to arrive at its allocation for the cash contribution, the Company has established a reserve for this anticipated round of funding in the amount of \$475. The Company is also currently reviewing the availability of insurance coverage for this liability.

Solvent Recoveries Superfund Site

A subsidiary of the Company is one of approximately 1,300 PRPs at a Superfund site in Southington, Connecticut, once operated by Solvent Recoveries, Inc. The PRP group has completed a Remedial Investigation/Feasibility Study and the USEPA has proposed remediation of the site. In 2008, the Company agreed to enter into a consent decree and settlement with the other PRPs and the USEPA whereby the Company agreed to pay a settlement amount of \$353 with an initial payment of \$106 and the remaining \$247 to be paid in installments over time as the remediation proceeds. The Company has reserved for the unpaid portion of the settlement and has entered into a letter of credit to guarantee the payment obligation under the settlement.

Newark Bay Complex Litigation

CasChem and Cosan have been named as two of several hundred third-party defendants in a third-party complaint filed in February 2009, by Maxus Energy Corporation (“Maxus”) and Tierra Solutions, Inc. (“Tierra”). The original plaintiffs include the NJDEP, the Commissioner of the NJDEP and the Administrator of the New Jersey Spill Compensation Fund, which originally filed suit in 2005 against Maxus, Tierra and other defendants seeking recovery of cleanup and removal costs for alleged discharges of dioxin and other hazardous substances into the Passaic River, Newark Bay, Hackensack River, Arthur Kill, Kill Van Kull and adjacent waters (the “Newark Bay Complex”). Maxus and Tierra are now seeking contribution from third-party defendants, including subsidiaries of the Company, for cleanup and removal costs for which each may be held liable in the lawsuit. Maxus and Tierra also seek recovery for cleanup and removal costs that each has incurred or will incur relating to the Newark Bay Complex. The Company expects to vigorously defend against the lawsuit. At this time it is too early to predict whether the Company will have any liability in this matter.

The Company is involved in other environmental matters where the range of liability is not reasonably estimable at this time and it is not determinable when information will become available to provide a basis for adjusting or recording an accrual, should an accrual ultimately be required.



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

(12) Contingencies (continued)

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 (“FTC”) in the United States District Court for the District of Columbia (the “District Court”). Suits were also commenced by several State Attorneys’ General and class action complaints by private plaintiffs in various state courts. The suits alleged violations of the Federal Trade Commission Act arising from exclusive license agreements between the Company and Mylan covering two APIs (Lorazepam and Clorazepate).

All cases have been resolved except for one brought by four health care insurers. In the remaining case the District Court entered judgment after trial in 2008 against Mylan, Gyma and Cambrex in the amount of \$8,355, payable jointly and severally, and also a punitive damage award against each defendant in the amount of \$16,709. In addition, the District Court ruled that the defendants were subject to a total of approximately \$7,000 in prejudgment interest. The parties have appealed the awards and oral arguments on the appeal are expected to occur in the fourth quarter of 2010.

Cambrex paid \$12,415 in exchange for a release from Mylan and full indemnity in 2003 against future costs or liabilities in related litigation brought by purchasers, as well as potential future claims related to the ongoing matter. In the event the defendants are not successful on appeal, Cambrex expects any payment of the judgment against it to be made by Mylan under the indemnity described above.

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## CAMBREX CORPORATION AND SUBSIDIARIES

(dollars in thousands, except share data)

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Executive Overview

The following significant events occurred during the second quarter 2010:

- Sales decreased 4.0% on a reported basis compared to second quarter 2009. Sales, excluding currency impact, decreased 1.8%.
- Gross margins decreased on a reported basis to 31.2% from 32.9% in the second quarter 2009. Gross margin, excluding currency impact, decreased to 30.3% in the second quarter 2010.

## Results of Operations

## Comparison of Second Quarter 2010 versus Second Quarter 2009

Gross sales in the second quarter 2010 of \$57,403 were \$2,363 or 4.0% below the second quarter 2009. Excluding a 2.2% unfavorable impact of foreign exchange reflecting a stronger U.S. dollar compared to second quarter 2009, sales decreased 1.8%. The decrease is primarily due to lower demand for certain larger products including the effects of a supply chain disruption at a customer's facility, lower pricing on generic active pharmaceutical ingredients ("APIs") and a renegotiated contract extension for certain drug delivery products resulting in lower pricing. These impacts were partially offset by higher sales volume of controlled substances and generic APIs.

Gross margins decreased to 31.2% in the second quarter 2010 from 32.9% in the second quarter 2009. Lower pricing, unfavorable product mix and inefficiencies related to the ramp-up of the new manufacturing facility in Italy were the main drivers of the lower margins. This was partially offset by a favorable impact of 0.9% due to foreign currency exchange.

The following table reflects sales by geographic area for the three months ended June 30, 2010 and 2009:

|                   | Three months ended June 30, |           |
|-------------------|-----------------------------|-----------|
|                   | 2010                        | 2009      |
| North America     | \$ 20,329                   | \$ 16,437 |
| Europe            | 30,136                      | 39,000    |
| Asia              | 4,427                       | 2,269     |
| Other             | 2,511                       | 2,060     |
| Total gross sales | \$ 57,403                   | \$ 59,766 |

Selling, general and administrative ("SG&A") expenses of \$8,184 in the second quarter 2010 decreased from \$8,546 in the second quarter 2009. The decrease is primarily the result of lower legal fees and insurance premiums. SG&A, as a percentage of gross sales, was 14.3% in the second quarters of 2010 and 2009.

Research and development ("R&D") expenses of \$2,841 were 4.9% of gross sales in the second quarter 2010, compared to \$2,161 or 3.6% of gross sales in the second quarter 2009. The increase is primarily due to higher process development costs as a result of the IEP acquisition, and the development of other new products and technology platforms.





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## Results of Operations (continued)

## Comparison of Second Quarter 2010 versus Second Quarter 2009 (continued)

Operating profit in the second quarter 2010 was \$6,908 compared to \$8,976 in the second quarter 2009. Lower gross profit, primarily due to lower pricing, and increased R&D spending, partially offset by a favorable impact due to foreign currency exchange contributed to lower operating profit.

Net interest expense was \$1,171 in the second quarter 2010 compared to \$1,142 in the second quarter 2009. During the second quarter 2010, lower capitalized interest was mostly offset by lower average debt and interest rates resulting in slightly higher net interest expense compared to second quarter 2009. The average interest rate on debt was 3.7% in the second quarter 2010 versus 4.0% in the second quarter 2009.

The effective tax rate for the second quarter 2010 increased to 35.9% compared to 30.7% in the second quarter 2009 due to the geographic mix of income. The tax provision in the second quarter 2010 decreased to \$2,057 compared to \$2,416 in the second quarter 2009 primarily due to lower pre-tax earnings. 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 tax 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.

Income from continuing operations in the second quarter 2010 was \$3,666, or \$0.12 per diluted share, versus \$5,459, or \$0.19, per diluted share in the same period a year ago.

## Comparison of First Six Months 2010 versus First Six Months 2009

Gross sales in the first six months 2010 of \$113,558 were \$6,208 or 5.2% below the first six months 2009. Excluding a 1.1% favorable impact of foreign exchange, reflecting a weaker U.S. dollar compared to first six months 2009, sales decreased 6.3%. The decrease is primarily due to lower volumes of a product utilizing the Company's drug delivery technology for which the Company renegotiated a three year agreement at lower price levels in late 2009, a customer supply chain disruption for an API manufactured under a long-term supply agreement and a feed additive for which a contract expired. This feed additive contributed \$1,933 in sales in the first six months of 2009. Increased demand for controlled substances and generic APIs exceeded price declines and positively impacted the first six months of 2010 as compared to the first six months of 2009.

Gross margins decreased to 28.6% in the first six months 2010 from 32.4% in the first six months 2009. Lower pricing and an unfavorable impact of 1.7% due to foreign currency exchange were the main drivers of the lower margins. This was partially offset by favorable product mix.

The following table reflects sales by geographic area for the six months ended June 30, 2010 and 2009:

|               | Six months ending June 30, |           |
|---------------|----------------------------|-----------|
|               | 2010                       | 2009      |
| North America | \$ 43,906                  | \$ 38,454 |
| Europe        | 59,180                     | 72,491    |
| Asia          | 6,457                      | 4,790     |

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|                   |            |            |
|-------------------|------------|------------|
| Other             | 4,015      | 4,031      |
| Total gross sales | \$ 113,558 | \$ 119,766 |

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Results of Operations (continued)

Comparison of First Six Months 2010 versus First Six Months 2009

SG&A expenses of \$16,980 in the first six months 2010 decreased from \$17,594 in the first six months 2009. The decrease is a result of lower legal fees and insurance premiums partially offset by an unfavorable impact of foreign currency and acquisition costs related to the purchase of IEP. SG&A, as a percentage of gross sales, increased to 15.0% from 14.7% in the first six months 2009 due to lower sales levels.

R&D expenses of \$4,826 were 4.2% of gross sales in the first six months 2010, compared to \$3,898 or 3.3% of gross sales in the first six months 2009. The increase is primarily due to higher process development costs as a result of the IEP acquisition, the development of other new products and technology platforms and an unfavorable impact due to foreign currency exchange.

Operating profit in the first six months 2010 was \$10,620 compared to \$17,324 in the first six months 2009. Lower gross profit, due to lower pricing and sales volume, and an unfavorable impact from foreign currency partially offset by lower spending contributed to the lower operating profit.

Net interest expense was \$2,369 in the first six months 2010 compared to \$2,299 in the first six months 2009. During the first six months 2010, lower capitalized interest was mostly offset by lower average debt and interest rates resulting in slightly higher net interest expense compared to the first six months 2009. The average interest rate on debt was 3.6% in the first six months 2010 versus 4.1% in the first six months 2009.

The effective tax rate for the first six months 2010 increased to 35.0% compared to 32.6% in the first six months 2009 due to the geographic mix of income. The tax provision in the first six months 2010 decreased to \$2,885 compared to \$4,936 in the first six months 2009 primarily due to lower pre-tax earnings. 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 tax 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.

In 2009, the Company's Italian subsidiary was examined by the Italian tax authorities, who challenged the business purpose of the deductibility of certain intercompany transactions from 2003. In the fourth quarter of 2009, the tax authorities notified the Company that they disagreed with the Company's responses to their formal assessments. In the first quarter of 2010, the Company filed an appeal to litigate the matter. The Company has analyzed these issues in accordance with guidance on uncertain tax positions and believes its reserves are adequate, and intends to defend itself.

Income from continuing operations in the first six months 2010 was \$5,349, or \$0.18 per diluted share, versus \$10,197, or \$0.35, per diluted share in the same period a year ago.

Liquidity and Capital Resources

Cash and cash equivalents decreased \$29,279 in the first six months of 2010 primarily due to the pay down of debt and the purchase of a business for \$6,897 in the first quarter of 2010. During the first six months of 2010, cash provided by operations was \$8,973 versus \$14,063 in the same period a year ago. Cash flows provided by operations in the first six months of 2010 compared to the first six months of 2009 was unfavorably impacted by lower net

income and cash collections of accounts receivable, partially offset by cash payments required in the first six months 2009 related to change-in-control and restructuring payments.

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Results of Operations (continued)

Liquidity and Capital Resources (continued)

Cash flows in the first six months of 2010 related to capital expenditures were \$5,097 compared to \$6,359 in 2009. The majority of the funds in 2010 and 2009 were used for capital improvements to existing facilities.

Cash flows used in financing activities in the first six months of 2010 was \$20,846 compared to \$538 in the same period a year ago. Cash outflows in 2010 and 2009 related to the net pay down of debt.

The Company believes that cash flows from operations along with funds available from a revolving line of credit will be adequate to meet the operational and debt servicing needs of the Company, but no assurances can be given that this will continue to be the case.

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, returns on assets within the Company's domestic pension plans that are significantly below expected performance, as well as other factors. See the "Risk Factors" section of the Company's Annual Report on Form 10-K for the period ended December 31, 2009 for further explanation of factors that may negatively impact the Company's cash flows. Any change in the current status of these factors could adversely impact the Company's ability to fund operating cash flow requirements.

The Company was in compliance with all financial covenants at June 30, 2010.

Impact of Recent Accounting Pronouncements

Fair Value Measurements

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

Revenue Arrangements with Multiple Deliverables

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

requirements of this issue and the amount of revenue that would have been recognized if the related transactions were subject to the measurement requirements of Issue 00-21. The Company has elected to early adopt the provisions of this standard, on a prospective basis, for revenue arrangements entered into or materially modified beginning January 1, 2010. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

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Results of Operations (continued)

Impact of Recent Accounting Pronouncements (continued)

Revenue Recognition – Milestone Method

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

Forward-Looking Statements

This document may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Rule 3b-6 under The Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding expected performance, especially expectations with respect to sales, research and development expenditures, earnings per share, capital expenditures, acquisitions, divestitures, collaborations, or other expansion opportunities. These statements may be identified by the fact that they use words such as “expects,” “anticipates,” “intends,” “estimates,” “believes” or similar expressions in connection with any discussion of future financial and operating performance. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Form 10-Q. 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 including, but not limited to, global economic trends, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and regulations (particularly environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, including the outcome of outstanding litigation disclosed in the Company’s public filings, the Company’s ability to satisfy the continued listing standards of the New York Stock Exchange, changes in foreign exchange rates, uncollectible receivables, 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 facilities or products and other factors described in Part I, Item 1A “Risk Factors” contained in the Company’s Annual Report on Form 10-K for the period ended December 31, 2009. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. New factors emerge from time to time and it is not possible for the Company to predict which will arise. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

For further details and a discussion of these and other risks and uncertainties, investors are cautioned to review the Cambrex 2009 Annual Report on Form 10-K, including the Forward-Looking Statement section therein, and other filings with the U.S. Securities and Exchange Commission.



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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 2010. 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, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based on that 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 Commission'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 has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

CAMBREX CORPORATION AND SUBSIDIARIES

Item 1. Legal Proceedings

See the discussion under Part I, Item 1, Note 12 to the Company's Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors and uncertainties during the first six months of 2010. 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, 2009.

Item 6. Exhibits

1. Exhibit 10.5 – Performance Share Units Agreement by and between Steven M. Klosk and Cambrex Corporation
2. Exhibit 10.6 – Performance Share Units Agreement by and between Gregory P. Sargen and Cambrex Corporation
3. Exhibit 31.1 – Section 302 Certification Statement of the Chief Executive Officer.
4. Exhibit 31.2 – Section 302 Certification Statement of the Chief Financial Officer.
5. Exhibit 32 – Section 906 Certification Statements of the Chief Executive Officer and Chief Financial Officer.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAMBREX CORPORATION

By /s/Gregory P. Sargen  
Gregory P. Sargen  
Vice President and Chief Financial Officer  
(On behalf of the Registrant and as the  
Registrant's Principal Financial Officer)

Dated: August 4, 2010