

CAMBREX CORP
Form 10-Q
July 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

for the quarterly period ended June 30, 2016

OR

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

for the transition period from _____ to _____

Commission file number 1-10638

CAMBREX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(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, 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 27, 2016, there were 32,147,275 shares outstanding of the registrant's Common Stock, \$.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This document contains and incorporates by reference forward-looking statements including statements regarding expected performance, including, but not limited to, the Company's belief that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company, as well as other statements relating to expectations with respect to sales, the timing of orders, research and development expenditures, earnings per share, capital expenditures, the outcome of pending litigation (including environmental proceedings and remediation investigations) and related estimates of potential liability, acquisitions, divestitures, collaborations or other expansion opportunities. These statements may be identified by the fact that they use words such as "may," "will," "could," "should," "would," "expect," "anticipate," "intend," "estimate," "believe" or similar. Any forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations. The factors described in Item 1A of Part I contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2015, captioned "Risk Factors," or otherwise described in the Company's filings with the Securities and Exchange Commission, provide examples of such risks and uncertainties that may cause the Company's actual results to differ materially from the expectations the Company describes in its forward-looking statements, including, but not limited to, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and regulations (particularly environmental issues), tax rates, interest rates, technology, manufacturing and legal issues, including the outcome of outstanding litigation, changes in foreign exchange rates, uncollectible receivables, the timing of orders, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, the Company's ability to receive regulatory approvals for its products and continued demand in the U.S. for late stage clinical products or the successful outcome of the Company's investment in new products.

The forward-looking statements are based on the beliefs and assumptions of Company management and the information available to Company management as of the date of this report. The Company cautions investors not to place significant reliance on expectations regarding future results, levels of activity, performance, achievements or other forward-looking statements. The information contained in this Quarterly Report on Form 10-Q is provided by the Company as of the date hereof, and, unless required by law, the Company does not undertake and specifically disclaims any obligation to update these forward-looking statements contained in this Quarterly Report on Form 10-Q as a result of new information, future events or otherwise.

Part I - FINANCIAL INFORMATION**Item 1. Financial Statements****CAMBREX CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,473	\$ 43,974
Trade receivables, net	67,692	90,920
Other receivables	10,828	7,278
Inventories, net	140,136	109,920
Prepaid expenses and other current assets	8,778	7,187
Total current assets	279,907	259,279
Property, plant and equipment, net	204,178	186,487
Goodwill	32,552	32,063
Intangible assets, net	7,469	6,691
Deferred income taxes	9,446	19,259
Other non-current assets	3,323	1,760
Total assets	\$ 536,875	\$ 505,539
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 36,639	\$ 39,257
Deferred revenue and advance payments	7,467	16,298
Accrued expenses and other current liabilities	36,608	44,247
Short-term debt	-	30,000
Total current liabilities	80,714	129,802
Advance payments	39,000	-
Deferred income taxes	7,697	7,735
Accrued pension benefits	41,724	42,661
Other non-current liabilities	14,689	14,506
Total liabilities	183,824	194,704

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Stockholders' equity:		
Common stock, \$.10 par value; authorized 100,000,000, issued 33,738,404 and 33,528,915 shares at respective dates	3,374	3,353
Additional paid-in capital	136,830	131,980
Retained earnings	280,774	245,698
Treasury stock, at cost, 1,594,549 and 1,729,727 shares at respective dates	(13,594)	(14,747)
Accumulated other comprehensive loss	(54,333)	(55,449)
 Total stockholders' equity	 353,051	 310,835
 Total liabilities and stockholders' equity	 \$ 536,875	 \$ 505,539

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES**Consolidated Income Statements**

(unaudited – in thousands, except per share data)

	Three months ended		Six months ended		
	June 30, 2016	2015	June 30, 2016	2015	
Gross sales	\$119,054	\$106,379	\$212,989	\$184,563	
Commissions, allowances and rebates	833	365	1,336	816	
Net sales	118,221	106,014	211,653	183,747	
Other revenue	417	621	1,726	413	
Net revenues	118,638	106,635	213,379	184,160	
Cost of goods sold	70,081	60,690	125,923	109,136	
Gross profit	48,557	45,945	87,456	75,024	
Operating expenses:					
Selling, general and administrative expenses	13,607	14,078	27,652	27,829	
Research and development expenses	4,125	2,703	7,603	5,358	
Total operating expenses	17,732	16,781	35,255	33,187	
Operating profit	30,825	29,164	52,201	41,837	
Other expenses/(income):					
Interest expense/(income), net	46	474	(9	) 950
Other expenses/(income), net	180	(232) 214	(170)
Income before income taxes	30,599	28,922	51,996	41,057	
Provision for income taxes	9,789	9,472	16,341	13,239	
Income from continuing operations	20,810	19,450	35,655	27,818	
(Loss)/income from discontinued operations, net of tax	(316) 213	(579) (162)
Net income	\$20,494	\$19,663	\$35,076	\$27,656	

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

Income from continuing operations	\$0.65	\$0.62	\$1.12	\$0.89
(Loss)/income from discontinued operations, net of tax	\$(0.01)	)\$0.01	\$(0.02)	)\$(0.01)
Net income	\$0.64	\$0.63	\$1.10	\$0.88

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

Income from continuing operations	\$0.63	\$0.60	\$1.09	\$0.86
(Loss)/income from discontinued operations, net of tax	\$(0.01)	)\$0.01	\$(0.02)	)\$0.00
Net income	\$0.62	\$0.61	\$1.07	\$0.86

Weighted average shares outstanding:

Basic	32,063	31,344	31,975	31,271
Effect of dilutive stock based compensation	863	1,096	873	1,038
Diluted	32,926	32,440	32,848	32,309

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income**

(unaudited – in thousands)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$20,494	\$19,663	\$35,076	\$27,656
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(6,383)	6,378	712	(11,605)
Interest rate swap agreement, net of tax of \$0, \$37, \$0 and \$67 at respective dates	-	69	-	123
Pension plan amortization of net actuarial loss and prior service cost, net of tax of \$100, \$108, \$200 and \$216 at respective dates	202	231	404	461
Comprehensive income	\$14,313	\$26,341	\$36,192	\$16,635

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

(unaudited – in thousands)

	Six months ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$35,076	\$27,656
Adjustments to reconcile net income to cash flows:		
Depreciation and amortization	11,274	10,685
Non-cash deferred revenue	(2,616)	(12,197)
Increase in inventory reserve	5,089	2,116
Stock based compensation	3,300	2,404
Deferred income tax provision	8,872	6,434
Other	306	(92)
Changes in assets and liabilities:		
Trade receivables	15,022	29,618
Inventories	(35,021)	(46,499)
Prepaid expenses and other current assets	(5,461)	(1,151)
Accounts payable and other current liabilities	(12,435)	2,675
Deferred revenue and advance payments	40,758	22,529
Other non-current assets and liabilities	652	(3,311)
Discontinued operations:		
Net cash used in discontinued operations	(195)	(663)
Net cash provided by operating activities	64,621	40,204
Cash flows from investing activities:		
Capital expenditures	(26,553)	(25,556)
Proceeds from sale of assets	13	2,102
Other	-	(56)
Net cash used in investing activities	(26,540)	(23,510)
Cash flows from financing activities:		
Repayment of debt	(30,000)	-
Proceeds from stock options exercised	1,956	1,895
Debt issuance costs	(2,515)	-
Other	770	299
Net cash (used in)/provided by financing activities	(29,789)	2,194
Effect of exchange rate changes on cash and cash equivalents	207	(1,808)
Net increase in cash and cash equivalents	8,499	17,080

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Cash and cash equivalents at beginning of period	43,974	45,518
Cash and cash equivalents at end of period	\$52,473	\$62,598

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(1) Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with U.S. generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2015.

The results of operations of any interim period are not necessarily indicative of the results expected for the full year.

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation at sites of divested businesses.

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

(2) Impact of Recently Issued Accounting Pronouncements

Simplification of Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09 which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and classification in the

statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases except short-term leases. On the income statement, leases will be classified as operating or finance leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the guidance and transition method to determine the impact, if any, it will have on its consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In March 2016, the FASB issued ASU 2016-08 which further clarifies the guidance on the principal versus agent considerations within ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. In May 2016, the FASB issued ASU 2016-12 to improve revenue recognition in the areas of collectability, presentation of sales tax and other similar taxes collected from customers, noncash consideration, contract modifications and completed contracts at transition. This update also amends the disclosure requirements within ASU 2014-09 for entities that retrospectively apply the guidance. The latest amendments are intended to address implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group, and provide additional practical expedients. These standards are effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11 which requires that inventory be measured at the lower of cost and net realizable value, which eliminates the other two options that currently exist for market, replacement cost and net realizable value less an approximately normal profit margin. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

(3) Net Inventories

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

Net inventories consist of the following:

	June 30, 2016	December 31, 2015
Finished goods	\$ 34,956	\$ 32,550
Work in process	67,375	41,358
Raw materials	32,105	30,830
Supplies	5,700	5,182
Total	\$ 140,136	\$ 109,920

(4) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2016, is as follows:

Balance as of December 31, 2015	\$ 32,063
Translation effect	489
Balance as of June 30, 2016	\$ 32,552

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

(in thousands, except share data)

(Unaudited)

(4) Goodwill and Intangible Assets (continued)

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

	Amortization Period (in years)	As of June 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	3 - 7	\$5,258	\$ (484)	\$ 4,774
Technology-based intangibles	20	3,375	(1,055)	2,320
Customer-related intangibles	10 - 15	655	(280)	375
		\$9,288	\$ (1,819)	\$ 7,469

	Amortization Period (in years)	As of December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	3 - 7	\$4,147	\$ (204)	\$ 3,943
Technology-based intangibles	20	3,310	(952)	2,358
Customer-related intangibles	10 - 15	642	(252)	390
		\$8,099	\$ (1,408)	\$ 6,691

The change in the gross carrying amount is due to additions and the impact of foreign currency translation. Beginning in 2014, the Company began implementing a new enterprise resource planning system, as such, \$1,111 has been capitalized and classified as internal-use software during the six months ended June 30, 2016.

Amortization expense was \$211 and \$387 for the three and six months ended June 30, 2016, respectively. Amortization expense was \$166 and \$335 for the three and six months ended June 30, 2015, respectively.

Amortization expense related to intangible assets is expected to be approximately \$871 for 2016, \$1,030 for 2017 and 2018, \$1,001 for 2019, and \$969 for 2020.

(5) Restructuring Charges

In October 2015, the Board of Directors of the Company recommended that management evaluate strategic alternatives for Zenara due to a change in focus on higher growth initiatives as well as to reduce attention required by senior management to operate Zenara.

As a result of that evaluation, Cambrex management, with Board authority, committed to a plan to sell Zenara. The immaterial assets and liabilities of Zenara are included in "Prepaid expenses and other current assets" and "Accrued expenses and other current liabilities" on the Company's balance sheet for all periods presented. Restructuring expenses of \$154 and \$444 have been included in "Selling, general and administrative expenses" for the three and six months ended June 30, 2016, respectively.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(6) Income Taxes

The tax provision from continuing operations for the three and six months ended June 30, 2016 was expense of \$9,789 and \$16,341, respectively, compared to \$9,472 and \$13,239 for the three and six months ended June 30, 2015, respectively. The effective tax rate for the three and six months ended June 30, 2016 was 32.0% and 31.4%, respectively, compared to 32.8% and 32.2% for the three and six months ended June 30, 2015, respectively.

(7) Derivatives

The Company operates internationally and is exposed to fluctuations in foreign exchange rates and interest rates in the normal course of business. The Company, from time to time, uses derivatives to reduce exposure to market risks resulting from fluctuations in interest rates and foreign exchange rates.

All financial instruments involve market and credit risks. The Company is exposed to credit losses in the event of non-performance by the counterparties to the contracts. While there can be no assurance, the Company does not anticipate non-performance by these counterparties.

Foreign Currency Forward Contracts

The Company periodically enters into foreign currency forward contracts to protect against currency fluctuations of forecasted cash flows and existing balance sheet exposures at its foreign operations, as deemed appropriate. The Company may or may not elect to designate certain forward contracts for hedge accounting treatment.

For derivatives that are not designated for hedge accounting treatment, changes in the fair value are immediately recognized in earnings. This treatment has the potential to increase volatility of the Company's earnings.

None of the foreign currency forward contracts entered into during the six months ended June 30, 2016 and 2015 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were \$22,768 and \$9,322 at June 30, 2016 and December 31, 2015, respectively. The Company does not hold or purchase any foreign currency forward contracts for trading or speculative purposes and no contractual term is greater than twelve months.

The fair value of the Company's foreign exchange forward contracts outstanding was a loss of \$148 at June 30, 2016 and is recorded in "Other receivables" on the balance sheet and "Other revenue" on the income statement. The fair value of the Company's foreign exchange forward contracts outstanding was immaterial at December 31, 2015.

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

(in thousands, except share data)

(Unaudited)

(8) Fair Value Measurements

U.S. GAAP establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from, or corroborated by, observable market data through correlation; Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of June 30, 2016. The amounts were immaterial at December 31, 2015.

Description	Total	Fair Value Measurements at June 30, 2016 using:		
		Level 1	Level 2	Level 3
		1	2	3
Foreign currency forwards, liabilities	\$(148)	\$-	\$(148)	\$-
Total	\$(148)	\$-	\$(148)	\$-

The Company's foreign currency forward contracts are measured at fair value using observable market inputs such as forward rates, the Company's credit risk and its counterparties' credit risks. Based on the Company's continued ability to enter into forward contracts, the Company considers the markets for its fair value instruments to be active.

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

(9) Accumulated Other Comprehensive Income/(Loss)

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

	Foreign Currency Translation Adjustments	Interest Rate Swap	Pension Plans	Total
Balance as of March 31, 2016	\$ (18,785)	\$ -	\$(29,367)	\$(48,152)
Other comprehensive loss before reclassifications	(6,383)	-	-	(6,383)
Amounts reclassified from accumulated other comprehensive loss	-	-	202	202
Net current-period other comprehensive (loss)/income	(6,383)	-	202	(6,181)
Balance as of June 30, 2016	\$ (25,168)	\$ -	\$(29,165)	\$(54,333)

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

(in thousands, except share data)

(Unaudited)

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

	Foreign			
	Currency	Interest	Pension	
	Translation	Rate	Plans	Total
		Swap		
	Adjustments			
Balance as of March 31, 2015	\$ (29,393	) \$ (139	) \$(33,148)	\$(62,680)
Other comprehensive income/(loss) before reclassifications	6,378	(4	) -	6,374
Amounts reclassified from accumulated other comprehensive loss	-	73	231	304
Net current-period other comprehensive income	6,378	69	231	6,678
Balance as of June 30, 2015	\$ (23,015	) \$ (70	) \$(32,917)	\$(56,002)

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

	Foreign			
	Currency	Interest	Pension	
	Translation	Rate	Plans	Total
		Swap		
	Adjustments			
Balance as of December 31, 2015	\$ (25,880	) \$ -	\$(29,569)	\$(55,449)
Other comprehensive income before reclassifications	712	-	-	712
Amounts reclassified from accumulated other comprehensive loss	-	-	404	404
Net current-period other comprehensive income	712	-	404	1,116
Balance as of June 30, 2016	\$ (25,168	) \$ -	\$(29,165)	\$(54,333)

Foreign	Interest	Pension	Total
	Rate		

	Currency	Swap	Plans	
	Translation Adjustments			
Balance as of December 31, 2014	\$ (11,410	) \$ (193	) \$(33,378)	\$(44,981)
Other comprehensive loss before reclassifications	(11,605	) (23	) -	(11,628)
Amounts reclassified from accumulated other comprehensive loss	-	146	461	607
Net current-period other comprehensive (loss)/income	(11,605	) 123	461	(11,021)
Balance as of June 30, 2015	\$ (23,015	) \$ (70	) \$(32,917)	\$(56,002)

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

(in thousands, except share data)

(Unaudited)

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

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

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

Details about AOCI Components	Three months ended June 30, 2015	Six months ended June 30, 2015
Losses on cash flow hedge:		
Interest rate swap	\$ (112)	\$ (225)

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Tax benefit	39	79
Net of tax	\$ (73)	\$ (146)
Amortization of defined benefit pension items:		
Actuarial losses	\$ (326)	\$ (651)
Prior service costs	(13)	(26)
Total before tax	(339)	(677)
Tax benefit	108	216
Net of tax	\$ (231)	\$ (461)
Total reclassification for the period	\$ (304)	\$ (607)

The Company recognizes net periodic benefit cost, which includes amortization of actuarial losses and gains, and prior service costs in both "Selling, general and administrative expenses" and "Cost of goods sold" in its income statement depending on the functional area of the underlying employees included in the plan. The interest rate swap is reflected in the Company's income statement as "Interest expense."

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

(in thousands, except share data)

(Unaudited)

(10) Stock Based Compensation

The Company recognizes compensation costs for stock options awarded to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2016 was \$13.82. The weighted-average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2015 were \$12.24 and \$10.59, respectively.

For the three months ended June 30, 2016 and 2015, the Company recorded \$972 and \$733, respectively, in “Selling, general and administrative expenses” for stock options. For the six months ended June 30, 2016 and 2015, the Company recorded \$1,824 and \$1,338, respectively, in “Selling, general and administrative expenses” for stock options. As of June 30, 2016, the total compensation cost related to unvested stock options not yet recognized was \$7,172. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.2 years.

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

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2015	1,631,913	\$ 19.17
Exercised	(44,279	) 9.47
Forfeited or expired	(5,250	) 16.45
Outstanding at March 31, 2016	1,582,384	19.45
Granted	20,264	45.12
Exercised	(165,210	) 9.30
Outstanding at June 30, 2016	1,437,438	20.98
Exercisable at June 30, 2016	527,324	\$ 13.78

The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2016 were \$6,668 and \$8,022, respectively. The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2015 were \$2,083 and \$7,422, respectively. The aggregate intrinsic values for all stock options outstanding and exercisable as of June 30, 2016 were \$44,198 and \$20,013, respectively.

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

(in thousands, except share data)

(Unaudited)

(10) Stock Based Compensation (continued)

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

	Nonvested Stock Options		Nonvested Restricted Stock	
	Number of Shares	Weighted- Average Grant- Date Fair Value	Number of Shares	Weighted- Average Grant- Date Fair Value
Nonvested at December 31, 2015	922,658	\$ 10.35	178	\$ 46.91
Vested during period	(14,875)	8.11	-	-
Forfeited	(5,250)	7.76	-	-
Nonvested at March 31, 2016	902,533	10.40	178	46.91
Granted	20,264	13.82	10,640	45.12
Vested during period	(12,683)	8.49	(178)	46.91
Nonvested at June 30, 2016	910,114	\$ 10.66	10,640	\$ 45.12

For the three months ended June 30, 2016 and 2015, the Company recorded \$161 and \$117, respectively, in "Selling, general and administrative expenses" for restricted stock awards. For the six months ended June 30, 2016 and 2015, the Company recorded \$166 and \$117, respectively, in "Selling, general and administrative expenses" for restricted stock awards. As of June 30, 2016, total compensation cost related to unvested restricted stock not yet recognized was \$320. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 0.3 years.

The Company granted equity-settled performance shares ("PS") to certain executives. PS awards provide the recipient the right to receive a certain number of shares of the Company's common stock in the future, which depends on the Company's level of achievement of net revenue and EBITDA growth as compared to the net revenue and EBITDA

growth of the members of a specified peer group of companies over a three year period. For the three months ended June 30, 2016 and 2015, the Company recorded \$631 and \$477, respectively, in "Selling, general and administrative expenses" related to these PS awards. For the six months ended June 30, 2016 and 2015, the Company recorded \$1,310 and \$949, respectively, in "Selling, general, and administrative expenses" related to PS awards.

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

(in thousands, except share data)

(Unaudited)

(11) Retirement Plans*Domestic Pension Plan*

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

	Three months ended June 30, 2016		Six months ended June 30, 2015	
Components of net periodic benefit cost				
Interest cost	\$598	\$607	\$1,195	\$1,215
Expected return on plan assets	(662)	(717)	(1,324)	(1,435)
Recognized actuarial loss	194	203	388	406
Net periodic benefit cost	\$130	\$93	\$259	\$186

The Company's Supplemental Executive Retirement Plan (which was frozen in 2007) is non-qualified and unfunded. Net periodic benefit cost for the three months ended June 30, 2016 and 2015 were \$64 and \$59, respectively. Net periodic benefit cost for the six months ended June 30, 2016 and 2015 were \$129 and \$118, respectively.

International Pension Plan

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Components of net periodic benefit cost				
Service cost	\$187	\$195	\$375	\$392
Interest cost	187	147	374	296
Recognized actuarial loss	49	83	98	166
Amortization of prior service benefit	(1)	(2)	(2)	(3)
Net periodic benefit cost	\$422	\$423	\$845	\$851

(12) Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company continually assesses known facts and circumstances as they pertain to applicable legal and environmental matters and evaluates the need for reserves and disclosures as deemed necessary based on these facts and circumstances. These matters, either individually or in the aggregate, could result in actual costs that are significantly higher than the Company's current assessment and could have a material adverse effect on the Company's operating results and cash flows in future reporting periods. Based upon past experience, the Company believes that payments significantly in excess of current reserves, if required, would be made over an extended number of years.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

Environmental

In connection with laws and regulations pertaining to the protection of the environment, the Company and its subsidiaries are a party to several environmental proceedings and remediation activities and along with other companies, have been named a potentially responsible party ("PRP") for certain waste disposal sites ("Superfund sites"). Substantially all of the liabilities currently recorded on the Company's balance sheet for environmental proceedings are associated with discontinued operations. The Company had insurance policies in place at certain of the discontinued operations for certain years that the Company believes should cover some portion of the recorded liabilities or potential future liabilities and the Company expects the net cash impact related to the contingencies described below to be reduced by the applicable income tax rate.

It is the Company's policy to record appropriate liabilities for environmental matters where remedial efforts are probable and the costs can be reasonably estimated. Such liabilities are based on the Company's estimate of the undiscounted future costs required to complete the remedial work. Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided against the Company. The resolution of such matters often spans several years and frequently involves regulatory oversight or adjudication. Additionally, many remediation requirements are fluid and are likely to be affected by future technological, site and regulatory developments. It is not possible at this time for the Company to determine fully the effect of all asserted and unasserted claims on its consolidated financial condition, results of operations or liquidity; however, to the extent possible, where asserted and unasserted claims can be estimated and where such claims are considered probable, the Company would record a liability. Consequently, the ultimate liability with respect to such matters, as well as the timing of cash disbursements, is uncertain.

In matters where the Company is able to reasonably estimate the probable and estimable costs associated with environmental proceedings, the Company accrues for the estimated costs associated with the study and remediation of applicable sites. These reserves were \$8,597 and \$8,329 at June 30, 2016 and December 31, 2015, respectively. The increase in the reserves includes adjustments to reserves of \$1,305, partially offset by payments of \$1,037. The reserves are adjusted periodically as remediation efforts progress or as additional technical, regulatory or legal information becomes available. Given the uncertainties regarding the outcome of investigative and study activities, the

status of laws, regulations, enforcement, policies, the impact of other PRPs, technology and information related to individual sites, the Company does not believe it is possible to currently develop an estimate of the range of reasonably possible environmental loss in excess of its reserves.

Bayonne

As a result of the sale of a Bayonne, New Jersey facility, the Company became obligated to investigate site conditions and conduct required remediation under the New Jersey Industrial Site Recovery Act. The Company intends to continue implementing a sampling plan at the property pursuant to the New Jersey Department of Environmental Protection's ("NJDEP") private oversight program. The results of the completed sampling, and any additional sampling deemed necessary, will be used to develop an estimate of the Company's future liability for remediation costs. New remedial requirements were identified during the current year which resulted in a \$200 increase to the reserve. As of June 30, 2016, the Company's reserve was \$542.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

Clifton and Carlstadt

The Company has implemented a sampling and pilot program in Clifton and Carlstadt, New Jersey pursuant to the NJDEP private oversight program. The results of the sampling and pilot program to date have been used to develop an estimate of the Company's future liability for remediation costs. An update to the cost estimate for the Carlstadt site resulted in an increase of \$35 in the current year. As of June 30, 2016, the Company's reserve was \$2,068.

Berry's Creek

The Company received a notice from the United States Environmental Protection Agency ("USEPA") that two subsidiaries of the Company are considered PRPs at the Berry's Creek Study Area in New Jersey. These subsidiaries are among many other PRPs that were listed in the notice. Pursuant to the notice, the PRPs have been asked to perform a remedial investigation ("RI") and feasibility study ("FS") of the Berry's Creek site. The Company has joined the group of PRPs and entered into an Administrative Settlement Agreement ("Agreement") and Order on Consent with the USEPA agreeing to jointly conduct or fund an appropriate remedial investigation and feasibility study of the Berry's Creek site with the other PRPs in the Agreement. The PRPs have engaged consultants to perform the work specified in the Agreement and develop a method to allocate related costs among the PRPs.

In June 2016, the PRPs received a request from USEPA to amend the RI/FS Work Plan to accommodate a phased, iterative approach to the Berry's Creek remediation. USEPA will be seeking an initial interim remedy that will focus on a portion of the site, namely, sediments in Upper and Middle Berry's Creek and the marsh in Upper Peach Island Creek. Any subsequent remedial action will occur after the implementation and performance monitoring of this interim remedy and the extent of future action is expected to be at least partially determined by the outcome of this initial phase. Although the scope of remedial activities in the initial interim remedy is not currently known and no range of potential costs has been determined, based on the Company's limited understanding of the remediation activities that would potentially be required for the initial phase, the Company believes that a remediation of this nature could cost as much as several hundred million dollars. The Company's share has been preliminarily estimated

by the PRP group at 2.3%; while the Company will defend its position that its share should be reduced from the current level, its share could be increased or decreased depending on the outcome of the final allocation process that will take place in future periods.

The estimated costs for the initial interim remedy are expected to be known within the next several quarters. At this time, the Company's liability cannot be reasonably estimated and as such, no accrual is recorded for these potential future costs. While any resolution of this matter is not expected to materially impact the Company's operations or financial position, it could be material to the financial statements in the period recorded. In the current year, the Company reserved \$213 based on new 2016 cash flow estimates. As of June 30, 2016, the Company's reserve was \$130 to cover the current phase of investigation based on a tentative agreement on the allocation of the site investigation costs among the PRPs.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

In July 2014, the Company received a notice from the U.S. Department of the Interior, U.S. Fish & Wildlife Service, regarding the Company's potential liability for natural resource damages at the Berry's Creek site and inviting the Company to participate in a cooperative assessment of natural resource damages. Most members of the Berry's Creek PRP group received such notice letters, and the PRP Group coordinated a joint response, which was to decline participation in a cooperative assessment at this time, given existing investigation work at the site. The cost of any future assessment and the ultimate scope of natural resource damage liability are not yet known.

Maybrook Site

A subsidiary of Cambrex is named a PRP of a site in Hamptonburgh, New York by the USEPA in connection with the discharge, under appropriate permits, of wastewater at that site prior to Cambrex's acquisition in 1986. The PRPs implemented soil remediation which was completed in 2012 pending approval by the USEPA. The PRPs will continue implementing the ground water remediation at the site. In the current quarter, the Company reserved \$370 for additional USEPA oversight expenses. As of June 30, 2016, the Company's reserve was \$692 to cover long-term ground water monitoring and related costs.

Harriman Site

Subsidiaries of Cambrex and Pfizer are named as responsible parties for the Company's former Harriman, New York production facility by the New York State Department of Environmental Conservation ("NYSDEC"). A final Record of Decision ("ROD") describing the Harriman site remediation responsibilities for Pfizer and the Company was issued in 1997 (the "1997 ROD") and incorporated into a federal court Consent Decree in 1998 (the "Consent Decree"). In December 2013, the Company, Pfizer and the NYSDEC entered into a federal court stipulation, which the court subsequently endorsed as a court order, resolving certain disputes with the NYSDEC about the scope of the obligations under the Consent Decree and the 1997 ROD, and requiring the Company and Pfizer to carry out an environmental investigation and study of certain areas of the Harriman Site.

Site clean-up work under the 1997 ROD, the Consent Decree and the 2013 stipulation is ongoing and is being jointly performed by Pfizer and the Company, with NYSDEC oversight. In 2014, Pfizer and the Company performed supplemental remedial investigation measures agreed to by the NYSDEC, and the findings were submitted to NYSDEC in a Supplemental RI Report and a Feasibility Study. In letters issued in April 2015 and June 2016, the NYSDEC disapproved the Supplemental RI Report and demanded that the Company and Pfizer revise certain aspects of the Supplemental RI Report and Feasibility Study. The Company and Pfizer are in communications with the NYSDEC to address its written comments. As it is too soon to determine whether the communications with NYSDEC will result in any significant changes to the Company's responsibilities, no change to the reserve has been made. ELT Harriman, LLC ("ELT"), the current owner of the Harriman site, is conducting other investigation and remediation activities under a separate NYSDEC directive.

No final remedy for the site has been determined, which will follow further discussions with the NYSDEC. The Company estimates the range for its share of the liability at the site to be between \$2,000 and \$7,000. As of June 30, 2016, the Company's reserve was \$3,515. At this time, the Company is unable to provide an estimate of the ultimate investigative and remedial costs to the Company for any final remedy selected by the NYSDEC.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

The Company intends to enforce all of its contractual rights to recover costs and for indemnification under a 2007 settlement agreement, and has filed such claims in an arbitration proceeding against ELT and the immediately preceding owner, Vertellus Specialties Holdings (“Vertellus”). ELT has filed counterclaims, and has threatened to file additional counterclaims, for contractual indemnification and for breach of the settlement agreement against the Company. Currently, the arbitration proceeding is stayed indefinitely. In May 2016, some but not all of the Vertellus entities who are parties to the Company’s 2007 settlement agreement filed for restructuring under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company is monitoring the bankruptcy proceeding and intends to assert all of its rights as a creditor.

Scientific Chemical Processing (“SCP”) Superfund Site

A subsidiary of Cambrex was named a PRP of the SCP Superfund site, located in Carlstadt, New Jersey, along with approximately 130 other PRPs. The site is a former waste processing facility that accepted various waste for recovery and disposal including processing wastewater from this subsidiary. The PRPs are in the process of implementing a final remedy at the site. The SCP Superfund site has also been identified as a PRP in the Berry’s Creek Superfund site (see previous discussion). While the Company continues to dispute the methodology used by the PRP group to arrive at its interim allocation for cash contributions, the Company paid the funding requests in 2010 and 2014-2015. A final allocation of SCP Site costs (excluding Berry’s Creek costs) is expected to be finalized during 2016. As of June 30, 2016, the Company’s reserve was \$900, of which approximately \$576 is expected to be covered by insurance.

Newark Bay Complex

The USEPA and a private party group are evaluating remediation plans for the Passaic River, Newark Bay, Hackensack River, Arthur Kill, Kill Van Kull and adjacent waters (the “Newark Bay Complex”). Although the Company is not involved in the USEPA action, it continues to monitor developments related to the site due to its past involvement in a previously settled state action relating to the Newark Bay Complex. The USEPA has finalized its decision on a cleanup plan for 8.3 miles of the lower Passaic River, and has estimated the cost of this plan at \$1.38

billion. Due to the uncertainty of the future scope and timing of any possible claims against the Company, no liability has been recorded.

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

Litigation and Other Matters

Lorazepam and Clorazepate

In 1998, the Company and a subsidiary were named as defendants along with Mylan Laboratories, Inc. (“Mylan”) and Gyma Laboratories, Inc. (“Gyma”) in a proceeding instituted by the Federal Trade Commission in the United States District Court for the District of Columbia (the “District Court”). Suits were also commenced by several State Attorneys General and class action complaints by private plaintiffs in various state courts. The suits alleged violations of the Federal Trade Commission Act arising from exclusive license agreements between the Company and Mylan covering two APIs (Lorazepam and Clorazepate).

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(12) Contingencies (continued)

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

In 2003, Cambrex paid \$12,415 to Mylan in exchange for a release and full indemnity against future costs or liabilities in related litigation brought by the purchasers of Lorazepam and Clorazepate, as well as potential future claims related to the ongoing matter. In the event of a final settlement or final judgment, Cambrex expects any payment required by the Company to be made by Mylan under the indemnity described above.

(13) Discontinued Operations

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation expenses for divested sites. For the three and six months ended June 30, 2016, the Company recorded \$316 and \$579 as losses from discontinued operations, net of tax. For the three and six months ended June 30, 2015, the Company recorded income of \$213 related to insurance proceeds and losses of \$162, respectively, from discontinued operations. As of June 30, 2016 and December 31, 2015, liabilities recorded on the Company's balance sheet relating to discontinued operations were \$8,597 and \$8,209, respectively. At this time, we cannot reasonably estimate the period of time during which the involvement is expected to continue. Net cash used in discontinued operations for the six months ended June 30, 2016 and 2015, were \$195 and \$663, respectively. Refer to Note 12 to the Company's consolidated financial statements for further disclosures on the Company's environmental contingencies.

The following table is a reconciliation of the pre-tax loss/income on discontinued operations to the net loss/income on discontinued operations, as presented on the income statement:

	Three months ended June 30, 2016		Six months ended June 30, 2015	
Pre-tax (loss)/income from discontinued operations	\$ (487)	\$ 327	\$ (891)	\$ (250)
Income tax benefit/(expense)	171	(114)	312	88
(Loss)/income from discontinued operations, net of tax	\$ (316)	\$ 213	\$ (579)	\$ (162)

CAMBREX CORPORATION AND SUBSIDIARIES

(in thousands, except share data)

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

Executive Overview

The following summarizes the Company's performance for the second quarter of 2016:

Sales increased 11.9% on a reported basis compared to the second quarter of 2015. Sales, excluding currency impact, increased 11.0%.

Gross margins decreased to 40.8% from 43.2% in the second quarter of 2015.

Net Cash was \$52,473 compared to \$85,597 at March 31, 2016, a decrease of \$33,124 primarily due to the timing of accounts receivable collections, increased inventory production and capital spending.

Results of Operations

Comparison of Second Quarter 2016 versus Second Quarter 2015

Gross sales in the second quarter of 2016 of \$119,054 were \$12,675 or 11.9% higher than the second quarter of 2015. Excluding a 0.9% favorable impact of foreign exchange compared to the second quarter of 2015, the sales increase reflects higher volumes (16.0%) partially offset by lower pricing (5.0%). Certain branded APIs, custom development products and generic APIs drove most of the growth.

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

	Second quarter	
	2016	2015
Europe	\$76,804	\$68,937

North America	34,427	29,931
Asia	5,398	4,139
Other	2,425	3,372
Total gross sales	\$ 119,054	\$ 106,379

Gross margins in the second quarter of 2016 decreased to 40.8% from 43.2% in the second quarter of 2015. Foreign currency had a negligible impact on gross margins in the second quarter of 2016. The decrease was primarily due to lower pricing and the recording of inventory reserves including higher reprocessing costs, partially offset by favorable product mix. Gross profit in the second quarter of 2016 was \$48,557 compared to \$45,945 in the same period last year.

Selling, general and administrative (“SG&A”) expenses of \$13,607 in the second quarter of 2016 decreased compared to \$14,078 in the second quarter of 2015. The decrease is mainly due to lower bonus expense (approximately \$1,400) and lower recruiting/relocation costs (approximately \$800) partially offset by higher personnel costs (approximately \$900) and sales and marketing expenses (approximately \$400). SG&A as a percentage of gross sales was 11.4% and 13.2% in the second quarters of 2016 and 2015, respectively.

Results of Operations (continued)

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

Research and development (“R&D”) expenses of \$4,125 were 3.5% of gross sales in the second quarter of 2016, compared to \$2,703 or 2.5% of gross sales in the second quarter of 2015. The increase is primarily related to increased personnel costs (approximately \$800) and costs to develop new generic drug products (approximately \$400).

Operating profit in the second quarter of 2016 was \$30,825 compared to \$29,164 in the second quarter of 2015. The increase in operating profit is due to higher gross profit partially offset by higher operating expenses as described above.

Net interest expense was \$46 in the second quarter of 2016 compared to \$474 in the second quarter of 2015. The decrease is the result of paying off the Company’s debt in early 2016 and higher interest income generated from cash balances. Interest expense during the quarter represents amortization of debt issuance costs and commitment fees related to the new credit facility entered into during the quarter. The Company did not have any debt outstanding during the second quarter of 2016. The average interest rate on debt was 2.4% in the second quarter of 2015.

The tax provision from continuing operations in the second quarter of 2016 was expense of \$9,789 compared to \$9,472 in the second quarter of 2015. The effective tax rate in the second quarter of 2016 was 32.0% compared to 32.8% in the second quarter of 2015.

Income from continuing operations in the second quarter of 2016 was \$20,810, or \$0.63 per diluted share, versus \$19,450, or \$0.60 per diluted share in the same period a year ago.

Comparison of First Six Months of 2016 versus First Six Months of 2015

Gross sales in the first six months of 2016 of \$212,989 were \$28,426 or 15.4% higher than the first six months of 2015. Excluding a 0.3% favorable impact of foreign exchange compared to the first six months of 2015, sales increased 15.1% due to higher volumes (19.0%) partially offset by lower pricing on certain products (3.9%). Controlled substances, certain branded APIs, custom development products and generic APIs drove the growth.

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

	First Six months	
	2016	2015
Europe	\$123,949	\$113,755
North America	74,232	58,310
Asia	8,814	6,464
Other	5,994	6,034
Total gross sales	\$212,989	\$184,563

Gross margins in the first six months of 2016 increased to 41.1% from 40.6% in the first six months of 2015. Excluding a favorable impact from foreign currency, margins in the first six months of 2016 were 40.1% compared to 40.6% in the same period last year. This decrease was primarily due to lower pricing and the recording of inventory reserves including higher reprocessing costs. Gross profit in the first six months of 2016 was \$87,456 compared to \$75,024 in the same period last year.

Results of Operations (continued)

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

SG&A expenses were \$27,652 in the first six months of 2016 compared to \$27,829 in the first six months of 2015. Lower bonus expense (approximately \$1,400) and lower recruiting/relocation costs (approximately \$1,000) were offset by higher sales and marketing expenses (approximately \$800), higher personnel costs (approximately \$600) and restructuring expenses (approximately \$400). SG&A as a percentage of gross sales was 13.0% and 15.1% in the first six months of 2016 and 2015, respectively.

R&D expenses of \$7,603 were 3.6% of gross sales in the first six months of 2016, compared to \$5,358 or 2.9% of gross sales in the first six months of 2015. The increase is primarily related to increased personnel costs (approximately \$1,500) and costs to develop new generic drug products (approximately \$900).

Operating profit in the first six months of 2016 was \$52,201 compared to \$41,837 in the first six months of 2015. The increase in operating profit is primarily due to higher gross profit partially offset by higher operating expenses as described above.

Net interest income was \$9 in the first six months of 2016 compared to net interest expense of \$950 in the first six months of 2015. The change is the result of paying off the Company's debt in early 2016 and higher capitalized interest resulting from increased capital spending in the first six months of 2016 compared to the same period last year. The average interest rate on debt was 2.4% in the first six months of 2015.

The tax provision from continuing operations in the first six months of 2016 was expense of \$16,341 compared to \$13,239 in the first six months of 2015. The effective tax rate in the first six months of 2016 was 31.4% compared to 32.2% in the first six months of 2015.

Income from continuing operations in the first six months of 2016 was \$35,655, or \$1.09 per diluted share, versus \$27,818, or \$0.86 per diluted share in the same period a year ago.

Liquidity and Capital Resources

During the first six months of 2016, cash provided by operations was \$64,621 versus \$40,204 in the same period a year ago. This increase was primarily due to an advance payment of \$39,000 and collections of accounts receivable related to sales that occurred in late 2015 partially offset by increased inventory production.

Cash flows used in investing activities in the first six months of 2016 mostly related to capital expenditures of \$26,553 compared to \$25,556 in 2015. Capital expenditures in the first six months of 2016 and 2015 primarily expanded the Company's manufacturing capacity to support expected growth.

Cash flows used in financing activities in the first six months of 2016 were \$29,789 compared to \$2,194 provided by financing activities in the same period a year ago. The 2016 cash flows primarily relate to the pay down of the Company's debt. The cash flows in 2015 primarily relate to cash proceeds from the exercise of stock options.

The Company expects to spend approximately \$70,000 to \$75,000 on capital expenditures during 2016.

In May 2016, the Company closed on a new \$500 million Senior Credit Facility. Borrowings under the Credit Facility bear interest at a rate per annum of LIBOR plus a margin ranging from 1.25% to 2%. The facility is currently undrawn.

Liquidity and Capital Resources (continued)

The Company believes that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company for the foreseeable future.

The Company's forecasted cash flow from future operations may be adversely affected by various factors including, but not limited to, declines in customer demand, increased competition, the deterioration in general economic and business conditions, increased environmental remediation, returns on assets within the Company's domestic pension plans, as well as other factors. See the "Risk Factors" section of the Company's Annual Report on Form 10-K for the period ended December 31, 2015 for further explanation of factors that may negatively impact the Company's cash flows.

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

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

Impact of Recent Accounting Pronouncements

Simplification of Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09 which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and classification in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases except short-term leases. On the income statement, leases will be classified as operating or finance leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the guidance and transition method to determine the impact, if any, it will have on its consolidated financial statements.

Impact of Recent Accounting Pronouncements (continued)

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In March 2016, the FASB issued ASU 2016-08 which further clarifies the guidance on the principal versus agent considerations within ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. In May 2016, the FASB issued ASU 2016-12 to improve revenue recognition in the areas of collectability, presentation of sales tax and other similar taxes collected from customers, noncash consideration, contract modifications and completed contracts at transition. This update also amends the disclosure requirements within ASU 2014-09 for entities that retrospectively apply the guidance. The latest amendments are intended to address implementation issues that were raised by stakeholders and discussed by the Revenue Recognition Transition Resource Group, and provide additional practical expedients. These standards are effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11 which requires that inventory be measured at the lower of cost and net realizable value, which eliminates the other two options that currently exist for market, replacement cost and net realizable value less an approximately normal profit margin. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact, if any, it will have on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no significant change in the Company's exposure to market risk during the first six months of 2016. For a discussion of the Company's exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter covered by this report that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

CAMBREX CORPORATION AND SUBSIDIARIES

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors and uncertainties during the first six months of 2016. For a discussion of the Risk Factors, refer to Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2015.

Item 6. Exhibits

Exhibit 31.1* Section 302 Certification Statement of the Chief Executive Officer.

Exhibit 31.2* Section 302 Certification Statement of the Chief Financial Officer.

Exhibit 32** Section 906 Certification Statements of the Chief Executive Officer and Chief Financial Officer.

Exhibit 101.INS* XBRL Instance Document

Exhibit 101.SCH* XBRL Taxonomy Extension Schema

Exhibit 101.CAL* XBRL Taxonomy Extension Calculation Linkbase

Exhibit 101.DEF* XBRL Taxonomy Extension Definition Linkbase

Exhibit 101.LAB* XBRL Taxonomy Extension Label Linkbase

Exhibit 101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

** Furnished herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, (ii) Consolidated Income Statements for the three and six months ended June 30, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, and (v) Notes to Consolidated Financial Statements.

Signatures

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

CAMBREX CORPORATION

By /s/Gregory P. Sargen
Gregory P. Sargen

Executive Vice President and

Chief Financial Officer

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

Dated: July 28, 2016