

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

for the quarterly period ended June 30, 2017

OR

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

for the transition period from _____ to _____

Commission file number 1-10638

CAMBREX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE 22-2476135
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

ONE MEADOWLANDS PLAZA, EAST RUTHERFORD, NEW JERSEY 07073

(Address of principal executive offices)

(201) 804-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company Emerging growth company

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

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

As of July 31, 2017, there were 32,729,626 shares outstanding of the registrant's Common Stock, \$.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This document contains and incorporates by reference forward-looking statements including statements regarding expected performance, including, but not limited to, the Company's belief that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company, as well as other statements relating to expectations with respect to sales, the timing of orders, research and development expenditures, earnings per share, capital expenditures, the outcome of pending litigation (including environmental proceedings and remediation investigations) and related estimates of potential liability, acquisitions, divestitures, collaborations or other expansion opportunities. These statements may be identified by the fact that they use words such as "may," "will," "could," "should," "would," "expect," "anticipate," "intend," "estimate," "believe" or similar. Any forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations. The factors described in Item 1A of Part I contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2016, captioned "Risk Factors," or otherwise described in the Company's filings with the Securities and Exchange Commission, provide examples of such risks and uncertainties that may cause the Company's actual results to differ materially from the expectations the Company describes in its forward-looking statements, including, but not limited to, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and regulations (particularly environmental issues), tax rates, interest rates, technology, manufacturing and legal issues, including the outcome of outstanding litigation, changes in foreign exchange rates, uncollectible receivables, the timing of orders, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, the Company's ability to receive regulatory approvals for its products and continued demand in the U.S. for late stage clinical products or the successful outcome of the Company's investment in new products.

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

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

(in thousands, except share data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94,177	\$ 74,141
Trade receivables, net	99,064	110,622
Other receivables	9,001	6,748
Inventories, net	156,576	123,184
Prepaid expenses and other current assets	7,421	7,960
Total current assets	366,239	322,655
Property, plant and equipment, net	237,796	217,092
Goodwill	42,304	40,323
Intangible assets, net	14,590	14,800
Deferred income taxes	8,611	13,061
Other non-current assets	3,541	3,934
Total assets	\$ 673,081	\$ 611,865
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 39,129	\$ 42,873
Deferred revenue and advance payments	7,766	7,506
Taxes payable	4,206	9,469
Accrued expenses and other current liabilities	37,254	35,614
Total current liabilities	88,355	95,462
Advance payments	39,000	39,000
Deferred income taxes	7,443	6,921
Accrued pension benefits	43,934	43,109
Other non-current liabilities	23,787	21,946
Total liabilities	202,519	206,438

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

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES**Consolidated Income Statements**

(unaudited – in thousands, except per share data)

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

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

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

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

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

Weighted average shares outstanding:

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

See accompanying notes to unaudited consolidated financial statements.

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

(unaudited – in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	\$25,030	\$20,494	\$44,895	\$35,076
Other comprehensive income/(loss):				
Foreign currency translation adjustments	10,279	(6,383)	12,747	712
Pension plan amortization of net actuarial loss and prior service cost, net of tax of \$117, \$100, \$232 and \$200 at respective dates	243	202	487	404
Comprehensive income	\$35,552	\$14,313	\$58,129	\$36,192

See accompanying notes to unaudited consolidated financial statements.

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

(unaudited – in thousands)

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

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

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(1) Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with U.S. generally accepted accounting principles ("GAAP"). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2016.

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

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

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

(2) Impact of Recently Issued Accounting Pronouncements

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

Simplification of Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09 which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and classification in the statement of cash flows. This standard became effective for the Company on January 1, 2017. The new standard requires recognition of excess tax benefits that had not previously been recognized. The Company had no remaining unrecognized excess tax benefits as of December 31, 2016. All excess tax benefits and deficiencies in future periods will be recorded as part of the current period tax provision within the Income Statement. This will result in increased volatility in the Company's effective tax rate. During the first six months of 2017, the Company recognized a tax benefit of \$4,379 which lowered the effective tax rate by 7.1%. No other provisions in this new standard had a significant impact on the consolidated financial statements including the Company's accounting policy election to account for forfeitures when they occur.

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

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11 which requires that inventory be measured at the lower of cost and net realizable value, which eliminates the other two options that currently exist for market, replacement cost and net realizable value less an approximately normal profit margin. This update became effective on January 1, 2017 and did not have a material impact on the Company's consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

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

Business Combinations – Clarifying the Definition of a Business

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

Statement of Cash Flows – Restricted Cash

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

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15 which provides guidance on the presentation and classification in the statement of cash flows for specific cash receipt and payment transactions, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases except short-term leases. On the income statement, leases will be classified as operating or finance leases. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. At this time, the Company has no financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. This adjustment will not be material to the Company, assuming there is not an increase in lease activity.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. Numerous updates were issued in 2016 that provide clarification on a number of specific issues as well as requiring additional disclosures. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period.

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

Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

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

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

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

Simplifying the Test for Goodwill Impairment

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

Scope of Modification Accounting, Stock Based Compensation

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

(3) Net Inventories

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

Net inventories consist of the following:

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

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

(in thousands, except share data)

(Unaudited)

(4) Goodwill and Intangible Assets

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

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

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

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

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

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

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

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

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

(5) Income Taxes

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

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(6) Derivatives

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

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

Foreign Currency Forward Contracts

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

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

None of the foreign currency forward contracts entered into during the six months ended June 30, 2017 and 2016 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were \$44,019 and \$20,896 at June 30, 2017 and December 31, 2016, respectively. The Company does not hold or purchase any foreign currency forward contracts for trading or speculative purposes and no contractual term is greater than twelve months.

The fair value of the Company's foreign exchange forward contracts outstanding was a gain of \$1,069 and \$125 at June 30, 2017 and December 31, 2016, respectively. Losses are recorded in "Accrued expenses and other current liabilities" and gains are recorded in "Prepaid expenses and other current assets" on the balance sheet and "Other revenues, net" on the income statement.

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

(in thousands, except share data)

(Unaudited)

(7) Fair Value Measurements

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

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of June 30, 2017 and December 31, 2016:

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

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

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

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(8) Accumulated Other Comprehensive Income/(Loss)

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

	Foreign		
	Currency	Pension	
	Translation	Plans	Total
	Adjustments		
Balance as of March 31, 2017	\$ (31,822) \$(30,986)	\$