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CAMBREX CORP
Form 10-Q
August 08, 2006

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, 2006

OR

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

for the transition period from _____ to _____

Commission file number 1-10638

CAMBREX CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-2476135
(I.R.S. Employer
Identification No.)

ONE MEADOWLANDS PLAZA, EAST RUTHERFORD, NEW JERSEY 07073
(Address of principal executive offices)

(201) 804-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes . No .

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of July 31, 2006, there were 26,847,215 shares outstanding of the registrant's Common Stock, \$.10 par value.

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CAMBREX CORPORATION AND SUBSIDIARIES

FORM 10-Q

For The Quarter Ended June 30, 2006
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Part I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

CAMBREX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share data)

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| | June 30, 2006 | December 31, 2005 |
|---|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 30,283 | \$ 45,932 |
| Trade receivables, net | 74,314 | 74,425 |
| Inventories, net | 110,452 | 93,617 |
| Prepaid expenses and other current assets | 15,746 | 15,552 |
| | ----- | ----- |
| Total current assets | 230,795 | 229,526 |
| Property, plant and equipment, net | 240,052 | 229,410 |
| Goodwill | 98,963 | 96,368 |
| Other intangible assets, net | 50,800 | 51,183 |
| Other assets | 5,469 | 5,985 |
| | ----- | ----- |
| Total assets | \$626,079 | \$612,472 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 37,790 | \$ 38,813 |
| Accrued expenses and other current liabilities | 49,567 | 51,819 |
| Short-term debt and current portion of long-term debt ... | 1,782 | 1,514 |
| | ----- | ----- |
| Total current liabilities | 89,139 | 92,146 |
| Long-term debt | 186,020 | 186,819 |
| Deferred tax liabilities | 29,160 | 28,543 |
| Other non-current liabilities | 63,537 | 61,713 |
| | ----- | ----- |
| Total liabilities | 367,856 | 369,221 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock, \$.10 par value; authorized 100,000,000 issued 29,198,491 and 29,118,141 shares at respective dates | 2,920 | 2,912 |
| Additional paid-in capital | 220,738 | 219,236 |
| Retained earnings | 60,137 | 62,170 |
| Treasury stock, at cost; 2,353,712 and 2,443,313 shares at respective dates | (20,943) | (20,768) |
| Deferred compensation | -- | (2,131) |
| Accumulated other comprehensive loss | (4,629) | (18,168) |
| | ----- | ----- |
| Total stockholders' equity | 258,223 | 243,251 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$626,079 | \$612,472 |
| | ===== | ===== |

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per-share data)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Gross sales | \$123,577 | \$116,171 | \$ 243,184 | \$223,184 |
| Allowances and rebates | 274 | 1,676 | 1,173 | 1,173 |
| Net sales | 123,303 | 114,495 | 242,011 | 222,011 |
| Other revenues | 1,065 | 2,251 | 2,145 | 2,145 |
| Net revenues | 124,368 | 116,746 | 244,156 | 224,156 |
| Cost of goods sold | 81,595 | 76,476 | 156,463 | 149,476 |
| Gross profit | 42,773 | 40,270 | 87,693 | 74,680 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 29,112 | 25,318 | 57,305 | 52,318 |
| Research and development expenses | 5,505 | 5,881 | 11,493 | 11,493 |
| Total operating expenses | 34,617 | 31,199 | 68,798 | 63,811 |
| Operating profit | 8,156 | 9,071 | 18,895 | 10,869 |
| Other expenses: | | | | |
| Interest expense, net | 2,295 | 2,751 | 9,648 | 9,648 |
| Other expense/(income), net | 94 | (93) | 116 | 116 |
| Income before income taxes | 5,767 | 6,413 | 9,131 | 10,333 |
| Provision/(benefit) for income taxes | 4,791 | (667) | 9,332 | 8,666 |
| Income/(loss) before cumulative effect of a change in accounting principle | \$ 976 | \$ 7,080 | \$ (201) | \$ 1,667 |
| Cumulative effect of a change in accounting principle ... | -- | -- | (228) | (228) |
| Net income/(loss) | \$ 976 | \$ 7,080 | \$ (429) | \$ 1,439 |
| Basic earnings per share: | | | | |
| Income/(loss) before cumulative effect of a change in accounting principle | \$ 0.04 | \$ 0.27 | \$ (0.01) | \$ 0.06 |
| Cumulative effect of a change in accounting principle | -- | -- | (0.01) | (0.01) |
| Net income/(loss) | \$ 0.04 | \$ 0.27 | \$ (0.02) | \$ 0.05 |
| Diluted earnings per share: | | | | |
| Income/(loss) before cumulative effect of a change in accounting principle | \$ 0.04 | \$ 0.27 | \$ (0.01) | \$ 0.06 |
| Cumulative effect of a change in accounting principle | -- | -- | (0.01) | (0.01) |
| Net income/(loss) | \$ 0.04 | \$ 0.27 | \$ (0.02) | \$ 0.05 |
| Weighted average shares outstanding: | | | | |
| Basic | 26,741 | 26,402 | 26,701 | 26,402 |
| Effect of dilutive stock based compensation | 50 | 108 | -- | -- |
| Diluted | 26,791 | 26,510 | 26,701 | 26,402 |

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| | | | | |
|-------------------------------------|---------|---------|---------|-------|
| Cash Dividends paid per share | \$ 0.03 | \$ 0.03 | \$ 0.06 | \$ |
| | ===== | ===== | ===== | ===== |

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

| | Six months ended June 30, | |
|---|------------------------------|-----------|
| | 2006 | 2005 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Adjustments to reconcile net (loss)/income to cash flows: | | |
| Net (loss)/income | \$ (429) | \$ 11,170 |
| Cumulative effect of a change in accounting principle... | 228 | -- |
| Depreciation and amortization | 17,405 | 19,886 |
| Acquired in-process research and development | 1,445 | -- |
| Write-off of debt origination fees | 463 | -- |
| Stock based compensation | 808 | (295) |
| Deferred income taxes | (539) | -- |
| Allowance for doubtful accounts | 358 | 1,329 |
| Inventory reserves | 2,035 | 1,868 |
| Loss on disposal of property, plant and equipment | 306 | -- |
| Other | (19) | -- |
| Changes in assets and liabilities: | | |
| Receivables | 2,916 | (4,750) |
| Inventories | (14,561) | (15,889) |
| Prepaid expenses and other current assets | 111 | 98 |
| Accounts payable and other current liabilities | (5,684) | (729) |
| Other non-current assets and liabilities | (855) | (2,386) |
| | ----- | ----- |
| Net cash provided by operating activities | 3,988 | 10,302 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Capital expenditures | (17,633) | (18,077) |
| Acquired in-process research and development | (1,392) | -- |
| Other investing activities | (65) | (695) |
| | ----- | ----- |
| Net cash used in investing activities | (19,090) | (18,772) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Dividends paid | (1,604) | (1,584) |
| Net increase in short-term debt | 246 | 174 |
| Long-term debt activity (including current portion): | | |
| Borrowings | 176,014 | 52,239 |
| Repayments | (178,723) | (78,711) |
| Proceeds from stock options exercised | 1,267 | 170 |

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| | | |
|---|-----------|-----------|
| Other financing activities | (113) | (74) |
| | ----- | ----- |
| Net cash used in financing activities | (2,913) | (27,786) |
| | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | 2,366 | (9,670) |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (15,649) | (45,926) |
| Cash and cash equivalents at beginning of period | 45,932 | 91,532 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 30,283 | \$ 45,606 |
| | ===== | ===== |

See accompanying notes to unaudited consolidated financial statements.

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data)

(1) BASIS OF PRESENTATION

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

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with generally accepted accounting principles. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2005.

The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

(2) IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)" which is effective for fiscal years beginning after December 15, 2006 with earlier adoption encouraged. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is currently evaluating the potential impact of this interpretation.

(3) ACQUISITIONS

On February 2, 2006, the Company acquired Cutanogen Corporation ("Cutanogen") for a purchase price of \$1,445 which was paid at closing with additional purchase price payments of up to \$4,800 subject to the achievement of certain regulatory and commercial milestones. Cutanogen, formally a biotechnology company, focuses on products used to treat patients with severe

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burns. Cutanogen's product, PermaDerm(TM) cultured skin, is the first multi-layered product that combines autologous epidermal and dermal layers of the skin in a product for severe burns that is pliable and grows with the patient, a particular advantage when a burn patient is a child. The Company expensed the purchase price payment and will continue to expense all additional payments prior to regulatory approval of the product as in-process research and development. At acquisition, Cutanogen was a development stage company, as it had no long-lived assets, revenues or employees. The results will be reported as part of the Bioproducts segment.

(4) STOCK BASED COMPENSATION

The Company adopted FAS 123(R) effective January 1, 2006 using the modified prospective transition method. Prior to January 1, 2006, the company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees. No stock-based employee compensation cost associated with stock options was recognized in the financial results for the three and six months ended June 30, 2005, as all the options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The first six months of 2006 do not include compensation cost for options granted prior to January 1, 2006 as all options outstanding prior to

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CAMBREX CORPORATION AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (dollars in thousands, except share data)

(4) STOCK BASED COMPENSATION (CONTINUED)

January 1, 2006 were fully vested as of December 31, 2005. On June 30, 2006, the Company had seven active stock-based employee compensation plans in effect. The Company also had outstanding at June 30, 2006 SARs and restricted stock as described below.

Beginning January 1, 2006, the Company recognizes compensation costs for stock option awards to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2006 was \$7.73 and \$8.02, respectively.

Stock option values were estimated using a 0.55% dividend yield, expected volatility of 38.28% and a risk-free interest rate of 4.79%. The Company's stock options are not publicly traded, therefore, expected volatilities are based on historical volatility of the Company's stock. The risk-free interest rate is based on the yield of a zero-coupon U.S. Treasury bond whose maturity period approximates the option's expected term. The expected term of 4.75 years was utilized based on Staff Accounting Bulletin No. 107, "Share-Based Payment" "simplified" method for determining the expected term of stock options. Assumptions used in estimating the fair value of stock options granted in the first six months of 2006 are consistent with the assumptions used prior to the adoption of FAS 123(R) with the exception of the expected life. As a result of using the "simplified" method, the expected life was shortened by 1.25 years.

FAS 123(R) requires companies to estimate the expected forfeitures for all unvested awards and record compensation costs only for those awards that are expected to vest. As of June 30, 2006, the total compensation cost related to

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unvested stock option awards granted to employees but not yet recognized was immaterial. The cost will be amortized on a straight-line basis over the remaining weighted average vesting period of 3.7 years.

The amount of stock based compensation costs related to stock options recorded in the three and six months ended June 30, 2006 were \$157 and \$158, respectively. Earnings per share changed by \$0.01 for the three and six months ended June 30, 2006 as a result of adopting FAS 123(R) on January 1, 2006.

Cambrex senior executives participate in a long-term incentive plan which rewards achievement of long-term strategic goals with restricted stock units. Awards are made annually to key executives and vest in one-third increments on the first, second and third anniversaries of the grant. On the third anniversary of the grant, restrictions on sale or transfer are removed and shares are issued to executives. In the event of termination of employment or retirement, the participant is entitled to the vested portion of the restricted stock units and forfeits the remaining amount; the three-year sale and transfer restriction remains in place. In the event of death or permanent disability, all shares vest and the deferred sales restriction lapses. These awards are classified as equity awards as defined in FAS 123(R). Historically, only senior executives participated in this plan. As of January 1, 2006, certain other employees are eligible to receive restricted stock as part of a redesigned stock-based compensation plan. For the three and six months ended June 30, 2006, the Company recorded \$227 and \$386 respectively, in compensation expense for this plan. For the three and six months ended June 30, 2005, the Company recorded \$480 and \$875, respectively, in compensation expense for this plan. As of June 30, 2006, the total compensation cost related to unvested restricted stock granted but not yet recognized was \$1,643. The cost will be amortized on a straight-line basis over the remaining vesting period.

At June 30, 2006, the Company has outstanding 150,000 fully-vested cash-settled incentive SARs at a price of \$19.30. These SARs are classified as liability awards and, as such, will be recorded at fair value until the rights are exercised or expire with the amount being recorded as compensation expense or benefit in the

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(4) STOCK BASED COMPENSATION (CONTINUED)

applicable period. Fair market value was estimated using a 0.58% dividend yield, expected volatility of 38.74% and a risk-free rate of 5.16%. For the three and six months ended June 30, 2006 the Company recorded, at fair market value, \$46 and \$264, respectively, in compensation expense. For the three and six months ended June 30, 2005 the Company recorded, at intrinsic value, \$300 and \$1,170, respectively, in compensation benefit. The Company recorded \$228 in compensation expense as a cumulative effect of a change in accounting principle in accordance with FAS 123(R). Under FAS 123(R), the Company is required to measure the SARs at fair market value. Prior to adopting FAS 123(R), the SARs were measured at the intrinsic value.

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

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| OPTIONS ----- | NUMBER OF SHARES ----- | WEIGHTED- AVERAGE EXERCISE PRICE ----- | WEIGHTED- AVERAGE REMAINING CONTRACTUAL TERM ----- |
|--------------------------------|------------------------------|--|---|
| Outstanding at January 1, 2006 | 4,021,247 | \$26.60 | 4.63 |
| Granted | 2,250 | \$21.71 | |
| Exercised | (79,600) | \$14.48 | |
| Forfeited or expired | (56,033) | \$22.96 | |
| | ----- | | |
| Outstanding at March 31, 2006 | 3,887,864 | \$26.90 | 4.41 |
| | ----- | | |
| Granted | 1,000 | \$20.28 | |
| Exercised | (26,438) | \$15.17 | |
| Forfeited or expired | (206,362) | \$32.15 | |
| | ----- | | |
| Outstanding at June 30, 2006 | 3,656,064 | \$26.68 | 4.24 |
| | ===== | | |
| Exercisable at June 30, 2006 | 3,652,814 | \$26.69 | 4.24 |

The aggregate intrinsic value for all stock options exercised during the three and six months of 2006 were \$129 and \$564, respectively. The aggregate intrinsic value for all stock options exercised during the three and six months of 2005 were \$66 and \$84, respectively.

A summary of the Company's nonvested restricted stock as of June 30, 2006 and changes during the three and six months ended June 30, 2006 is presented below:

| NONVESTED RESTRICTED STOCK ----- | NUMBER OF SHARES ----- | WEIGHTED- AVERAGE GRANT- DATE FAIR VALUE ----- |
|-------------------------------------|------------------------------|---|
| Nonvested at January 1, 2006 | 69,756 | \$24.30 |
| Granted | 63,005 | \$21.71 |
| Vested during period | (30,306) | \$24.64 |
| Forfeited | (5,462) | \$21.71 |
| | ----- | |
| Nonvested at March 31, 2006 | 96,993 | \$22.66 |
| | ----- | |
| Granted | 340 | \$20.28 |
| Vested during period | -- | \$ -- |
| Forfeited | (2,658) | \$22.67 |
| | ----- | |
| Nonvested at June 30, 2006 | 94,675 | \$22.65 |
| | ===== | |

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(dollars in thousands, except share data)

(4) STOCK BASED COMPENSATION (CONTINUED)

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 as amended by FAS 148, Accounting for Stock-Based Compensation, to stock-based employee compensation for the three and six months ended June 30, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and amortized ratably to expense over the option's vesting periods.

| | Three Months Ended June 30, 2005 | Six Months Ended June 30, 2005 |
|--|--|--------------------------------------|
| | ----- | ----- |
| Net income, as reported | \$ 7,080 | \$ 11,170 |
| Add: stock based compensation expense/ (benefit) included in reported net income ... | 180 | (295) |
| Deduct: stock-based compensation expenses determined using fair value method | (15,102) | (16,006) |
| Proforma net loss | \$ (7,842) | \$ (5,131) |
| Earnings per share: | | |
| Basic - as reported | \$ 0.27 | \$ 0.42 |
| Basic - proforma | \$ (0.30) | \$ (0.19) |
| Diluted - as reported | \$ 0.27 | \$ 0.42 |
| Diluted - proforma | \$ (0.30) | \$ (0.19) |

(5) GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2006, are as follows:

| | Bioproducts Segment | Biopharma Segment | Human Health Segment | Total |
|-----------------------------------|------------------------|----------------------|----------------------------|----------|
| | ----- | ----- | ----- | ----- |
| Balance as of January 1, 2006 ... | \$56,642 | \$8,863 | \$30,863 | \$96,368 |
| Translation effect | 685 | -- | 1,910 | 2,595 |
| Balance as of June 30, 2006 | \$57,327 | \$8,863 | \$32,773 | \$98,963 |
| | ===== | ===== | ===== | ===== |

Other intangible assets that are not subject to amortization, consist of the following:

| | |
|----------|--------------|
| As of | As of |
| June 30, | December 31, |
| 2006 | 2005 |

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| | | |
|---------------------|----------|----------|
| | ----- | ----- |
| Trademarks | \$33,898 | \$33,898 |
| Proprietary Process | 2,052 | 2,052 |
| | ----- | ----- |
| Total | \$35,950 | \$35,950 |
| | ===== | ===== |

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CAMBREX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (dollars in thousands, except share data)

(5) GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

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

As of June 30, 2006

| | | | |
|--------------------|--------------------------|-----------------------------|------------------------|
| | ----- | ----- | ----- |
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| | ----- | ----- | ----- |
| Product Technology | \$12,763 | \$ (4,794) | \$ 7,969 |
| Patents | 5,942 | (2,348) | 3,594 |
| Supply Agreements | 2,110 | (1,261) | 849 |
| License Agreement | 2,005 | (494) | 1,511 |
| Other | 2,132 | (1,205) | 927 |
| | ----- | ----- | ----- |
| Total | \$24,952 | \$(10,102) | \$14,850 |
| | ===== | ===== | ===== |

As of December 31, 2005

| | | | |
|--------------------|--------------------------|-----------------------------|------------------------|
| | ----- | ----- | ----- |
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| | ----- | ----- | ----- |
| Product Technology | \$12,326 | \$ (4,257) | \$ 8,069 |
| Patents | 5,685 | (2,097) | 3,588 |
| Supply Agreements | 2,110 | (1,152) | 958 |
| License Agreement | 2,005 | (401) | 1,604 |
| Other | 1,974 | (960) | 1,014 |
| | ----- | ----- | ----- |
| Total | \$24,100 | \$(8,867) | \$15,233 |
| | ===== | ===== | ===== |

Amortization expense for the three and six months ended June 30, 2006 was \$486 and \$974, respectively.

The expected amortization expense related to intangible assets in the

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future is as follows:

| | |
|---|---------|
| For the year ended December 31, 2006... | \$1,985 |
| For the year ended December 31, 2007... | \$1,963 |
| For the year ended December 31, 2008... | \$1,841 |
| For the year ended December 31, 2009... | \$1,543 |
| For the year ended December 31, 2010... | \$1,351 |

(6) INCOME TAXES

The effective tax rate for the three months ended June 30, 2006 and 2005 was 83.1% and (10.4%), respectively. The tax provision for the three months ended June 30, 2006 increased to \$4,791 compared to a benefit of \$667 in the three months ended June 30, 2005. The effective tax rate for the six months ended June 30, 2006 and 2005 was 102.2% and 22.4%, respectively. The tax provision in the six months ended June 30, 2006 and 2005 increased to \$9,332 compared to \$3,230 in the first six months of 2005.

The tax rate for the three and six months ended June 30, 2005 includes the favorable settlement of a tax matter in Sweden of \$3,329. Additionally, the operating results for the three and six months ended June 30, 2006 include larger losses domestically and within certain foreign jurisdictions where the Company is unable to recognize a tax benefit related to these losses within its tax provision. The Company maintains a full valuation allowance against its domestic, and certain foreign, net deferred tax assets and will continue to do so until an appropriate level of profitability is sustained or tax strategies can be developed that would enable

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(6) INCOME TAXES (CONTINUED)

the Company to conclude that it is more likely than not that a portion of these net deferred assets would be realized. As such, improvements in domestic, and certain foreign, pre-tax income in the future may result in these tax benefits ultimately being realized. However, there is no assurance that such improvements will be achieved.

(7) NET INVENTORIES

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

Net inventories at June 30, 2006 and December 31, 2005 consist of the following:

| June 30, 2006 | December 31, 2005 |
|------------------|----------------------|
| ----- | ----- |

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| | | |
|--------------------|-----------|----------|
| Finished goods.... | \$ 52,591 | \$46,134 |
| Work in process... | 28,683 | 24,615 |
| Raw materials..... | 25,743 | 18,159 |
| Supplies..... | 3,435 | 4,709 |
| | ----- | ----- |
| Total..... | \$110,452 | \$93,617 |
| | ===== | ===== |

(8) LONG-TERM DEBT

Long-term debt at June 30, 2006 and December 31, 2005 consists of the following:

| | June 30, 2006 | December 31, 2005 |
|---------------------------|------------------|----------------------|
| | ----- | ----- |
| Bank credit facilities .. | \$181,877 | \$ 81,943 |
| Senior notes | -- | 100,000 |
| Capitalized leases | 5,339 | 6,056 |
| Notes payable | 285 | 291 |
| | ----- | ----- |
| Subtotal | \$187,501 | \$188,290 |
| Less: current portion ... | 1,481 | 1,471 |
| | ----- | ----- |
| Total | \$186,020 | \$186,819 |
| | ===== | ===== |

In January 2006, the Company elected to prepay the senior notes with funds provided by borrowing under the 5-Year Syndicated Senior Revolving Credit Facility. An expense of \$5,272 was recorded related to a make-whole payment of \$4,809 paid to the senior note holders concurrent with the January 2006 payment, and the related acceleration of \$463 of unamortized origination fees.

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(9) COMPREHENSIVE INCOME

The following table shows the components of comprehensive income/(loss) for the three and six months ended June 30, 2006 and 2005:

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------------|--------------------------------|----------|------------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | ----- | ----- | ----- | ----- |
| Net income/(loss) | \$ 976 | \$ 7,080 | \$ (429) | \$ 11,17 |
| Foreign currency translation | 9,596 | (19,986) | 13,336 | (34,89 |

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| | | | | |
|--|----------|-------------|----------|------------|
| Unrealized gain/(loss) on hedging contracts, net of tax | 250 | (32) | 374 | (74) |
| Unrealized loss on available for sale securities... | (415) | (70) | (171) | (13) |
| | ----- | ----- | ----- | ----- |
| Total | \$10,407 | \$ (13,008) | \$13,110 | \$ (24,60) |
| | ===== | ===== | ===== | ===== |

(10) RETIREMENT PLANS

Domestic Pension Plans

The Company maintains two U.S. defined-benefit pension plans which cover all eligible employees: the Nepera Hourly Pension Plan which covers the union employees at the previously owned Harriman, New York plant, and the Cambrex Pension Plan which covers all other eligible employees.

The components of net periodic pension cost for the Company's domestic plans for the three and six months ended June 30, 2006 and 2005 are as follows:

| | Three months ended June 30, 2006 | Three months ended June 30, 2005 | Six months ended June 30, 2006 | Si ende |
|---|--|--|--------------------------------------|------------|
| | ----- | ----- | ----- | ----- |
| COMPONENTS OF NET PERIODIC BENEFIT COST | | | | |
| Service cost..... | \$ 729 | \$ 688 | \$ 1,458 | \$ |
| Interest cost..... | 858 | 791 | 1,716 | |
| Expected return on plan assets..... | (746) | (735) | (1,492) | |
| Amortization of prior service cost..... | 11 | 11 | 22 | |
| Recognized actuarial loss..... | 180 | 113 | 360 | |
| | ----- | ----- | ----- | ----- |
| Net periodic benefit cost..... | \$1,032 | \$ 868 | \$ 2,064 | \$ |
| | ===== | ===== | ===== | ===== |

The Company has two Supplemental Executive Retirement Plans ("SERP") for key executives. These plans are non-qualified and unfunded.

CAMBREX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (dollars in thousands, except share data)

(10) RETIREMENT PLANS (CONTINUED)

The components of net periodic pension cost for the Company's SERP Plans for the three and six months ended June 30, 2006 and 2005 are as follows:

| | Three months ended June 30, 2006 | Three months ended June 30, 2005 | Six months ended June 30, 2006 | Six months ended June 30, 2005 |
|--|--|--|--|--|
| | ----- | ----- | ----- | ----- |

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COMPONENTS OF NET PERIODIC BENEFIT COST

| | | | | |
|---|-------|-------|-------|-------|
| Service cost | \$ 55 | \$ 56 | \$110 | \$112 |
| Interest cost | 113 | 108 | 226 | 216 |
| Amortization of unrecognized transition obligation .. | 26 | 25 | 52 | 50 |
| Amortization of prior service cost | 1 | 1 | 2 | 2 |
| Recognized actuarial loss | 18 | 10 | 36 | 20 |
| | ---- | ---- | ---- | ---- |
| Net periodic benefit cost | \$213 | \$200 | \$426 | \$400 |
| | ===== | ===== | ===== | ===== |

International Pension Plans

Certain foreign subsidiaries of the Company maintain pension plans for their employees that conform to the common practice in their respective countries. Based on local laws and customs, some of those plans are not funded. For those plans that are funded, the amount in the trust supporting the plan is actuarially determined, and where applicable, in compliance with local statutes.

The components of net periodic pension cost for the Company's international plans for the three and six months ended June 30, 2006 and 2005 are as follows:

| | Three months ended June 30, 2006 | Three months ended June 30, 2005 | Six months ended June 30, 2006 | Six months ended June 30, 2005 |
|--|--|--|--|--|
| | ----- | ----- | ----- | ----- |
| COMPONENTS OF NET PERIODIC BENEFIT COST | | | | |
| Service cost | \$ 344 | \$302 | \$ 688 | \$ 604 |
| Interest cost | 260 | 282 | 520 | 564 |
| Expected return on plan assets | (102) | (92) | (204) | (184) |
| Amortization of unrecognized net obligation .. | (8) | (13) | (16) | (26) |
| Recognized actuarial loss | 17 | 59 | 34 | 118 |
| Amortization of prior service cost | 33 | (2) | 66 | (4) |
| | ----- | ----- | ----- | ----- |
| Net periodic benefit cost | \$ 544 | \$536 | \$1,088 | \$1,072 |
| | ===== | ===== | ===== | ===== |

CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(11) OTHER POSTRETIREMENT BENEFITS

Cambrex provides post-retirement health and life insurance benefits ("post-retirement benefits") to all eligible retired employees. Employees who retire at or after age 55 with fifteen years of service are eligible to participate in the postretirement benefit plans. Certain subsidiaries and all employees hired after December 31, 2002 (excluding those covered by collective bargaining) are not eligible for these benefits. The Company's responsibility for such premiums for each plan participant is based upon years of service. Such

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plans are self-insured and are not funded. Effective January 1, 2006, the Cambrex Retiree Medical Plan no longer provides prescription coverage to retirees or dependents age 65 or older.

The components of net periodic pension cost for the three and six months ended June 30, 2006 and 2005 are as follows:

| | Three months ended June 30, 2006 ----- | Three months ended June 30, 2005 ----- | Six months ended June 30, 2006 ----- | Six months ended June 30, 2005 ----- |
|--|---|---|---|---|
| COMPONENTS OF NET PERIODIC BENEFIT COST | | | | |
| Service cost of benefits earned | \$ 16 | \$ 15 | \$ 32 | \$ 30 |
| Interest cost | 34 | 38 | 68 | 76 |
| Actuarial loss recognized | 33 | 29 | 66 | 58 |
| Amortization of unrecognized prior service cost .. | (45) | (38) | (90) | (76) |
| | ---- | ---- | ---- | ---- |
| Total periodic postretirement benefit cost | \$ 38 | \$ 44 | \$ 76 | \$ 88 |
| | ==== | ==== | ==== | ==== |

(12) SEGMENT INFORMATION

The Company classifies its business units into three reportable segments: Bioproducts, consisting of research products and services and therapeutic applications, Biopharma, consisting of biopharmaceutical process development and manufacturing services and Human Health, consisting of active pharmaceutical ingredients and pharmaceutical intermediates produced under Food and Drug Administration cGMP for use in the production of prescription and over-the-counter drug products and other fine custom chemicals derived from organic chemistry.

Information as to the operations of the Company in each of its business segments is set forth below based on the nature of the products and services offered. Cambrex evaluates performance based on gross profit and operating profit. Inter-segment sales are not material. The Company allocates certain corporate expenses to each of the segments.

One customer accounts for 10% of consolidated gross sales in the three months ended June 30, 2006. There are no individual customers accounting for more than 10% of consolidated gross sales in the six months ended June 30, 2006 and the three and six months ended June 30, 2005.

The Company currently has a long-term sales contract that accounts for more than 10% of Human Health segment sales for the three months ended June 30, 2005 and six months ended June 30, 2006 and 2005 that is scheduled to expire at the end of 2008. There is no guarantee that this contract will be renewed.

During the second quarter 2006 there was a change in allocation methodology which reflects certain employee medical benefit expenses that were reclassified from segment cost of goods sold and operating expenses to Corporate operating expenses to better reflect actual costs reported in the operating segments. Prior period amounts have not been recast to reflect this change in allocation methodology.

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CAMBREX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (dollars in thousands, except share data)

(12) SEGMENT INFORMATION (CONTINUED)

As a result of the change in allocation methodology, cost of goods sold decreased \$1,321 with an increase to operating expense for the three and six months ended June 30, 2006. At the segment level, cost of goods sold decreased \$540, \$505 and \$276 for Bioproducts, Biopharma and Human Health, respectively. The decrease in segment operating expenses was \$322, \$48 and \$135 for Bioproducts, Biopharma and Human Health, respectively, offset by an increase in Corporate operating expense of \$1,826. Consolidated operating profit was not effected.

The following is a summary of business segment information:

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Gross Sales: | | | | |
| Bioproducts | \$ 41,073 | \$ 37,990 | \$ 82,414 | \$ 77,909 |
| Biopharma | 10,010 | 11,655 | 23,814 | 19,362 |
| Human Health | 72,494 | 66,526 | 136,956 | 129,362 |
| | \$123,577 | \$116,171 | \$243,184 | \$226,633 |
| | ===== | ===== | ===== | ===== |
| Gross Profit: | | | | |
| Bioproducts | \$ 21,261 | \$ 19,336 | \$ 44,128 | \$ 41,471 |
| Biopharma | (1,631) | (606) | (618) | (2,663) |
| Human Health | 23,143 | 21,540 | 44,183 | 44,724 |
| | \$ 42,773 | \$ 40,270 | \$ 87,693 | \$ 83,532 |
| | ===== | ===== | ===== | ===== |
| Operating Profit: | | | | |
| Bioproducts | \$ 8,166 | \$ 5,829 | \$ 15,034 | \$ 15,475 |
| Biopharma | (3,898) | (3,265) | (5,360) | (8,177) |
| Human Health | 13,016 | 10,721 | 24,609 | 23,030 |
| Corporate | (9,128) | (4,214) | (15,388) | (10,350) |
| | \$ 8,156 | \$ 9,071 | \$ 18,895 | \$ 19,978 |
| | ===== | ===== | ===== | ===== |
| Capital Expenditures: | | | | |
| Bioproducts | \$ 2,237 | \$ 2,644 | \$ 5,158 | \$ 5,581 |
| Biopharma | 1,405 | 784 | 2,252 | 2,190 |
| Human Health | 5,450 | 4,997 | 10,166 | 9,251 |
| Corporate | 42 | 606 | 57 | 1,055 |
| | \$ 9,134 | \$ 9,031 | \$ 17,633 | \$ 18,077 |
| | ===== | ===== | ===== | ===== |
| Depreciation: | | | | |
| Bioproducts | \$ 1,646 | \$ 1,487 | \$ 3,276 | \$ 2,981 |
| Biopharma | 917 | 1,223 | 1,812 | 2,169 |
| Human Health | 5,499 | 6,159 | 10,847 | 12,722 |
| Corporate | 246 | 405 | 496 | 807 |

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| | | | |
|----------|----------|-----------|-----------|
| ----- | ----- | ----- | ----- |
| \$ 8,308 | \$ 9,274 | \$ 16,431 | \$ 18,679 |
| ===== | ===== | ===== | ===== |

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CAMBREX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (dollars in thousands, except share data)

(12) SEGMENT INFORMATION (CONTINUED)

| | Three months ended | | Six months ended | |
|--------------------|--------------------|-------|------------------|---------|
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| | ---- | ---- | ---- | ----- |
| Amortization: | | | | |
| Bioproducts | \$418 | \$ 40 | \$824 | \$ 462 |
| Biopharma | 59 | 617 | 131 | 725 |
| Human Health | 9 | 11 | 19 | 20 |
| | ---- | ---- | ---- | ----- |
| | \$486 | \$668 | \$974 | \$1,207 |
| | ===== | ===== | ===== | ===== |

| | June 30, | December 31, |
|--------------------|-----------|--------------|
| | 2006 | 2005 |
| | ----- | ----- |
| Total Assets: | | |
| Bioproducts | \$240,044 | \$231,965 |
| Biopharma | 54,429 | 58,652 |
| Human Health | 314,394 | 301,771 |
| Corporate | 17,212 | 20,084 |
| | ----- | ----- |
| | \$626,079 | \$612,472 |
| | ===== | ===== |

(13) CONTINGENCIES

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company continually assesses all known facts and circumstances as they pertain to all legal and environmental matters and evaluates the need for reserves and disclosures as deemed necessary based on these facts and circumstances and as such facts and circumstances develop.

Environmental

In connection with laws and regulations pertaining to the protection of the environment, the Company and/or its subsidiaries is a party to several

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environmental proceedings and remediation investigations and cleanups and, along with other companies, has been named a potentially responsible party ("PRP") for certain waste disposal sites ("Superfund sites"). Additionally, as discussed in the "Sale of Rutherford Chemicals" section of this Note, the Company has retained the liability for certain environmental proceedings, associated with the Rutherford Chemicals business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided unfavorably against the Company. The resolution of such matters often spans several years and frequently involves regulatory oversight or adjudication.

Additionally, many remediation requirements are not fixed and are likely to be affected by future technological, site, and regulatory developments. Consequently, the ultimate extent of liabilities with respect to such matters, as well as the timing of cash disbursements cannot be determined with certainty.

In matters where the Company has been able to reasonably estimate its liability, the Company has accrued for the estimated costs associated with the study and remediation of Superfund sites not owned by the Company and the Company's current and former operating sites. These accruals were \$7,084 and \$6,413 at June 30, 2006 and December 31, 2005, respectively. The increase in the accrual is primarily due to an

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(13) CONTINGENCIES (CONTINUED)

increase in the reserve for the Clifton, NJ site and the Bayonne, NJ site of \$425 and \$235, respectively, and currency fluctuation of \$269, partially offset by payments of \$318. Based upon currently available information and analysis, the Company's current accrual represents management's best estimate of the probable and estimable costs associated with environmental proceedings including amounts for legal and investigation fees where remediation costs may not be estimable at the reporting date.

As a result of the sale of the Bayonne, New Jersey facility (see "Sale of Rutherford Chemicals" section of this Note), an obligation to investigate site conditions and conduct required remediation under the New Jersey Industrial Site Recovery Act was triggered and the Company has retained the responsibility for such obligation. The Company completed a preliminary assessment of the site and submitted the preliminary assessment to the New Jersey Department of Environmental Protection ("NJDEP"). The preliminary assessment identified potential areas of concern based on historical operations and sampling of such areas commenced. The Company has completed a second phase of sampling and determined that a third phase of sampling is necessary to determine the extent of contamination and any necessary remediation. The results of the completed and proposed sampling, and any additional sampling deemed necessary, will be used to develop an estimate of the Company's future liability for remediation costs, if required. The Company submitted its plan for the third phase of sampling to the NJDEP during the fourth quarter of 2005. The sampling will commence in the next few months. The Company increased reserves to cover currently anticipated investigation and minimum remediation costs related to the site.

In March 2000, the Company completed the acquisition of the Cambrex Profarmaco Landen facility in Belgium. At the time of acquisition, Cambrex was aware of certain site contamination and recorded a reserve for the estimated costs of remediation. This property has been the subject of an extensive

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on-going environmental investigation and health risk assessment. The investigation had been considered complete but the Company recently determined that an additional small area required further sampling to fully identify the contamination. The results of the entire investigation and the final risk assessment, both of which are nearing completion, will determine the ultimate remedial actions to be performed at the site. The Company is proceeding with finalization of the delineation and risk assessment. The reserve established in this matter is adequate based on current information.

The Company's Cosan subsidiary conducted manufacturing operations in Clifton, New Jersey from 1968 until 1979. Prior to the acquisition by the Company, the operations were moved to another location and thereafter Cambrex purchased the business. In 1997, Cosan entered into an Administrative Consent Order with the NJDEP. Under the Administrative Consent Order, Cosan was required to complete an investigation of the extent of the contamination related to the Clifton site and conduct remediation as may be necessary. During the third quarter of 2005, the Company completed the investigation related to the Clifton site, which extends to adjacent properties. The results of the investigation caused the Company to increase its related reserves by \$1,300 based on the proposed remedial action plan. The Company submitted the results of the investigation and proposed remedial action plan to the NJDEP.

In February 2005, the New Jersey Federal District Court ruled that a lawsuit claiming property damages against Cosan by the owners of contaminated property adjacent to the Clifton location could be placed on the active calendar. To avoid the expense and uncertainty of trial, the parties have reached agreement to settle this matter. A reserve of \$425 was recorded in March 2006. In July 2006, under the settlement, Cosan paid the property owner \$425 and this matter may be considered concluded.

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(13) CONTINGENCIES (CONTINUED)

In mid-2004 the United States Environmental Protection Agency ("USEPA") conducted a hazardous waste inspection of the Company's Charles City facility. Thereafter, the USEPA notified the facility of several alleged violations of the hazardous waste laws related to management of hazardous waste and requested additional information related to the alleged violations. The Company responded and provided information which questioned the conclusion that the violations occurred. Nevertheless, the USEPA concluded that several violations existed at the time of the inspection, and in October 2005 issued the facility an order and penalty assessment in the amount of \$189. In October 2005, the Company filed a request for a hearing and an informal conference to discuss settlement. In July 2006, the USEPA and the Company have reached agreement under which the Company neither admits, nor denies the USEPA's factual allegations or conclusions of law. The Company has also agreed to pay a mitigated penalty in the amount of \$15 and will complete a Supplemental Environmental Project designed to minimize the potential for pollution associated with certain activities at the site. This matter may be considered concluded.

In March 2006, the Company received notice from the USEPA that two former operating subsidiaries are considered PRPs at the Berry's Creek Superfund Site, Bergen County, New Jersey. Our operating companies are among many other PRPs that were listed in the notice. Pursuant to the notice the PRPs have been asked

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to perform a remedial investigation and feasibility study of the Berry's Creek Site. The Company has met with the other PRPs. Both operating companies joined the groups of PRPs and filed a joint response to the USEPA agreeing to jointly negotiate to conduct or fund (along with other PRPs) an appropriate remedial investigation and feasibility study of the Berry's Creek Site. At this time it is too early to predict the extent of any liabilities. However, the Company established a minimum reserve to cover anticipated initial costs related to the site.

The Company is involved in other matters where the range of liability is not reasonably estimable at this time and it is not determinable when information will become available to provide a basis for recording an accrual, should an accrual ultimately be required. If any of the Company's environmental matters develop in a more unfavorable manner than presently estimated, these matters either individually or in the aggregate, could have a material adverse effect on the Company's financial condition, operating results and cash flows in a future reporting period.

Litigation and Other Matters

Mylan Laboratories

In 1998 the Company and its subsidiary Profarmaco S.r.l. (currently known as Cambrex Profarmaco Milano S.r.l.) ("Profarmaco") were named as defendants (along with Mylan Laboratories, Inc. ("Mylan") and Gyma Laboratories of America, Inc., Profarmaco's distributor in the United States) in a proceeding instituted by the Federal Trade Commission ("FTC") in the United States District Court for the District of Columbia (the "District Court"). Suits were also commenced by several State Attorneys' General. The suits alleged violations of the Federal Trade Commission Act arising from exclusive license agreements between Profarmaco and Mylan covering two APIs. The FTC and Attorneys' General suits were settled in February 2001, with Mylan (on its own behalf and on behalf of Profarmaco and Cambrex) agreeing to pay over \$140,000 and with Mylan, Profarmaco and Cambrex agreeing to monitor certain future conduct.

The same parties including the Company and Profarmaco have also been named in purported class action complaints brought by private plaintiffs in various state courts on behalf of purchasers of the APIs in generic form, making allegations similar to those raised in the FTC's complaint and seeking various forms of relief including treble damages.

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(13) CONTINGENCIES (CONTINUED)

In April 2003, Cambrex reached an agreement with Mylan under which Cambrex would contribute \$12,415 to the settlement of litigation brought by a class of direct purchasers. In exchange, Cambrex and Profarmaco received from Mylan a release and full indemnity against future costs or liabilities in related litigation brought by purchasers, as well as potential future claims related to this matter. Cambrex recorded an \$11,342 charge (discounted to the present value due to the five year pay-out) in the first quarter of 2003 as a result of this settlement. In accordance with the agreement \$9,215 has been paid through June 30, 2006, with the remaining \$3,200 to be paid over the next two years. As of June 30, 2006 the outstanding balance for this liability was \$3,011.

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Vitamin B-3

In May 1998, the Company's subsidiary, Nepera, which formerly operated the Harriman facility and manufactured and sold niacinamide ("Vitamin B-3"), received a Federal Grand Jury subpoena for the production of documents relating to the pricing and possible customer allocation with regard to that product. In 2000, Nepera reached agreement with the Government as to its alleged role in Vitamin B-3 violations from 1992 to 1995. The Canadian government claimed similar violations. All government suits in the U.S. and Canada have been concluded.

Nepera has been named as a defendant, along with several other companies, in a number of private civil actions brought on behalf of alleged purchasers of Vitamin B-3. The actions seek injunctive relief and unspecified but substantial damages. All cases have been settled within established reserve amounts. Settlement documents will be finalized and payments will be made during the next several months. The balance of the reserves recorded within accrued liabilities related to this matter was \$1,590 as of June 30, 2006.

Sale of Rutherford Chemicals

The Company completed the sale of its Rutherford Chemicals business in November 2003. Under the agreement for the sale ("Purchase Agreement"), the Company provided standard representations and warranties and included various covenants concerning the business, operations, liabilities and financial condition of the Rutherford Chemicals business ("Rutherford Business"). Most of such representations and warranties survived for a period of thirty days after the preparation of the audited financial statements for year-end 2004 by the purchasers of the Rutherford Business ("Buyers"). Therefore, claims for breaches of such representations had to be brought during such time frame. Certain specified representations, warranties and covenants, such as those relating to employee benefit matters and certain environmental matters, survive for longer periods and claims under such representations, warranties and covenants could be brought during such longer periods. Under the Purchase Agreement, the Company has indemnified the Buyer for breaches of representations, warranties and covenants. Indemnifications for certain but not all representations and warranties are subject to a deductible of \$750 and a cap at 25 percent of the purchase price.

Under the Purchase Agreement, the Company has retained the liabilities associated with existing general litigation matters related to Rutherford Chemicals. With respect to certain pre-closing environmental matters, the Company retains the responsibility for: (i) certain existing matters including violations, environmental testing for the New York facility incinerator and off-site liabilities; and (ii) completing the on-going remediation at the New York facility. Further, as a result of the sale of the Bayonne, New Jersey facility within Rutherford Chemicals, and as discussed in the Environmental Section above, the obligation to investigate site conditions and conduct required remediation under the provisions of the New Jersey

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responsibility for completion of any such investigation and remediation. With respect to all other pre-closing environmental liabilities, whether known or unknown, the Buyer is responsible for the management of potential future matters; however, the Buyer and the Company may share the costs of associated remediation with respect to such potential future matters, subject to certain limitations defined in the agreement for sale. The Company has accrued for exposures which are deemed probable and estimable.

In March 2005, the Company received a claim from the Buyers claiming breach of certain representations, warranties and covenants contained in the Purchase Agreement. In April 2005, the Company responded rejecting the claim. Thereafter, the Buyers submitted an amended claim. The amended claim alleges breaches of representations, warranties and covenants covering each of the five operating sites sold pursuant to the Purchase Agreement and are related primarily to facility structures, utilities and equipment and alleges damages of \$26,407. To the extent the alleged damages arise from breaches of representations and warranties, the claim would be subject to a cap of between approximately \$14,000 and \$16,250, depending on whether certain contingent payments are made, and is subject to the deductible of \$750 which is the responsibility of the Buyers. In May 2005, the Company responded to the Buyers and rejected the claim entirely.

In September 2005, the Company received a request for indemnity ("September Notice") from the Buyers related to an arbitration claim filed by a Rutherford Business customer ("Customer"). The arbitration claim arises from a claimed breach of a supply agreement that was assigned to and assumed by the Buyers pursuant to the Purchase Agreement. Thereafter, the Company was also served with an arbitration claim by the Customer related to the same matter. In the arbitration claim, the Customer claims \$30,000 in damages arising from Buyers' breach of the supply agreement. The Buyers claim that the September Notice amends the earlier claims that they filed in March and April 2005, as discussed above, and that the Customer's claimed breach of the supply agreement should be treated as part of a breach of a representation, warranty or covenant set forth in the earlier notices. The supply agreement was assigned to and assumed by the Buyers, and the Company has now been dismissed from the Customer's arbitration claim. In October 2005, the Company rejected the Buyers' claim for indemnity under the September Notice in its entirety.

In October 2005, the Company received a notice from the Buyers ("October Notice") that summarized the claims previously received in March and April 2005, and included the Buyers' response to the Company's April and May rejection of the earlier notices. The October Notice also set forth additional claims for environmental matters related to the Rutherford Business that relate to environmental matters at each of the five operating sites sold pursuant to the Purchase Agreement. In December 2005, the Buyers added two additional environmental claims related to the former operating sites ("December Notices"). The Company has now responded to the October and December Notices disputing the environmental claims on various grounds, including that the Company believes most claims relate to Buyers' obligations under the Purchase Agreement. The Company also requested additional information because some environmental claims may be covered by sections of the Purchase Agreement where the parties share liability concerning such matters.

In April 2006, the Company received a summons and complaint (the "Complaint") from the Buyers, which was filed in the Supreme Court of the State of New York, County of New York. The Complaint seeks indemnification, declaratory and injunctive relief for alleged (i) breaches of representations, warranties and covenants covering each of the former operating sites related to facility structures, utilities and equipment

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(13) CONTINGENCIES (CONTINUED)

included in the March, April and October Notices mentioned above and the allegedly related breach of the Customer Supply Agreement arising from a breach of warranty at the Harriman facility included in the September Notice mentioned above (collectively "Equipment Matters"); and (ii) claims related to environmental matters at each of the five operating locations, most of which related to the former Harriman location included in the October Notice and December Notices mentioned above (collectively "Environmental Matters").

The Company continues its evaluation of Buyers' allegations and intends to defend itself against these claims vigorously. The Company continues to believe that the Equipment Matters are without merit. Further, the Company continues to believe that based on current information the majority of the Environmental Matters are either the Buyers' responsibility or without merit and the remaining are otherwise not reasonably estimable at this time. As such the Company has recorded no reserves for this matter.

Class Action Matter

In October 2003, the Company was notified of a securities class action lawsuit filed against Cambrex and five former and current Company officers. Five class action suits were filed with the New Jersey Federal District Court (the "Court"). Discovery in this matter is proceeding. In January 2004, the Court consolidated the cases, designated the lead plaintiff and selected counsel to represent the class. An amended complaint was filed in March 2004. The lawsuit has been brought as a class action in the names of purchasers of the Company's common stock from October 21, 1998 through July 25, 2003. The complaint alleges that the Company failed to disclose in a timely fashion the January 2003 accounting restatement and subsequent SEC investigation, as well as the loss of a significant contract at the Baltimore facility.

The Company filed a Motion to Dismiss in May 2004. Thereafter, the plaintiff filed a reply brief. In October 2005, the Court denied the Company's Motion to Dismiss against the Company and two current Company officers. The Company has reached its deductible under its insurance policy and further costs, expenses and any settlement is expected to be paid by the Company's insurers. The Company continues to believe that the complaints are without merit and will vigorously defend against them. As such, the Company has recorded no reserves related to this matter.

Securities and Exchange Commission

The SEC is currently conducting an investigation into the Company's inter-company accounting procedures from the period 1997 through 2001. The investigation began in the first half of 2003 after the Company voluntarily disclosed certain matters related to inter-company accounts for the five-year period ending December 31, 2001 that resulted in the restatement of the Company's financial statements for those years. To the Company's knowledge, the investigation is limited to this inter-company accounting matter, and the Company does not expect further revisions to its historical financial statements relating to these issues. The Company is fully cooperating with the SEC.

Baltimore Litigation

In 2001, the Company acquired the biopharmaceutical manufacturing business

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in Baltimore (the "Baltimore Business"). The sellers of the Baltimore Business filed suit against the Company alleging that the Company made false representations during the negotiations on which the sellers relied in deciding to sell the business and that the Company breached its obligation to pay additional consideration as provided in the

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CAMBREX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(dollars in thousands, except share data)

(13) CONTINGENCIES (CONTINUED)

purchase agreement which was contingent on the performance of the Baltimore Business. Management believes the matter to be without merit and continues its defense of this matter.

Other

The Company has commitments incident to the ordinary course of business including corporate guarantees of certain subsidiary obligations to the Company's lenders related to financial assurance obligations under certain environmental laws for remediation, closure and/or third party liability requirements of certain of its subsidiaries and a former operating location; contract provisions for indemnification protecting its customers and suppliers against third party liability for manufacture and sale of Company products that fail to meet product warranties and contract provisions for indemnification protecting licensees against intellectual property infringement related to licensed Company technology or processes.

Additionally, as permitted under Delaware law, the Company has agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a Director and Officer insurance policy that covers a portion of any potential exposure.

The Company currently believes the estimated fair value of its indemnification agreements is not significant based on currently available information, and as such, the Company has no liabilities recorded for these agreements as of June 30, 2006.

In addition to the matters identified above, Cambrex's subsidiaries are party to a number of other proceedings. While it is not possible to predict with certainty the outcome of the Company's litigation matters and various other lawsuits and contingencies, it is the opinion of management based on information currently available that the ultimate resolution of these matters should not have a material adverse effect on the Company's results of operations, cash flows and financial position. These matters, if resolved in an unfavorable manner, could have a material effect on the operating results and cash flows when resolved in a future reporting period.

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CAMBREX CORPORATION AND SUBSIDIARIES
(dollars in thousands, except share data)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

The Company's business consists of three segments - Bioproducts, Biopharma and Human Health. The Bioproducts segment consists of research products and services and therapeutic applications. The Biopharma segment consists of the Company's biopharmaceutical process development and manufacturing business. The Human Health segment is primarily comprised of active pharmaceutical ingredients derived from organic chemistry and pharmaceutical intermediates.

During the second quarter 2006, Cambrex achieved varying levels of success in its segments. Bioproducts has a robust pipeline of new products with several major product launches planned for the remainder of the year. Sales growth in Human Health is strong and custom development projects are expected to increase significantly this year. Biopharma continues to build its project pipeline.

The following significant events occurred during the second quarter 2006 which affected reported results:

- A \$1,337 charge recorded within administrative expenses for the costs related to the evaluation of strategic alternatives to enhance shareholder value.
- Certain employee medical benefit expenses were reclassified from segment cost of goods sold and operating expense to Corporate operating expenses to better reflect actual costs incurred within the operating segments. This reclassification did not affect total operating profit or net income; however it did improve the Company's gross margin.

RESULTS OF OPERATIONS

COMPARISON OF SECOND QUARTER 2006 VERSUS SECOND QUARTER 2005

The following tables show the gross sales of the Company's three segments, in dollars and as a percentage of the Company's total gross sales, for the three months ended June 30, 2006 and 2005.

| | 2006 | | 2005 | |
|-----------------------|-----------|--------|-----------|--------|
| | \$ | % | \$ | % |
| Bioproducts | \$ 41,073 | 33.2% | \$ 37,990 | 32.7% |
| Biopharma | 10,010 | 8.1 | 11,655 | 10.0 |
| Human Health | 72,494 | 58.7 | 66,526 | 57.3 |
| | ----- | ----- | ----- | ----- |
| Total gross sales ... | \$123,577 | 100.0% | \$116,171 | 100.0% |
| | ===== | ===== | ===== | ===== |

The following table shows the gross profit of the Company's three segments for the three months ended 2006 and 2005.

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| | 2006 | | 2005 | |
|------------------|-----------------|----------------|-----------------|----------------|
| | Gross Profit \$ | Gross Profit % | Gross Profit \$ | Gross Profit % |
| Bioproducts | \$21,261 | 51.8% | \$19,336 | 50.9% |
| Biopharma | (1,631) | (16.3) | (606) | (5.2) |
| Human Health ... | 23,143 | 31.9 | 21,540 | 32.4 |
| | ----- | | ----- | |
| Total | \$42,773 | 34.6% | \$40,270 | 34.7% |
| | ===== | | ===== | |

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RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF SECOND QUARTER 2006 VERSUS SECOND QUARTER 2005 (CONTINUED)

Gross sales in the second quarter 2006 increased 6.4% to \$123,577 from \$116,171 in the second quarter 2005 due to stronger sales in the Human Health and Bioproducts segments partially offset by weaker sales in the Biopharma segment. Foreign currency had no impact on gross sales.

Gross profit in the second quarter of 2006 was \$42,773 compared to \$40,270 in 2005. Gross margin percentage decreased to 34.6% from 34.7% in the second quarter of 2005. As mentioned above, the Company reclassified certain employee medical benefit expenses from segment cost of goods sold and operating expense to Corporate operating expenses to better reflect actual costs incurred within the segments resulting in increased gross profit of \$1,321 and gross margin percentage of 1.1%. A portion of the improvement to margins is a result of recording in the second quarter 2006 the cumulative change in allocation methodology for the first six months of 2006. If the Company had not made a change to the allocation methodology, gross margin percentage would have been 33.5% in the second quarter 2006 versus 34.7% in the second quarter 2005. If the Company had applied the new methodology to the second quarter of 2006 (excluding the impact related to the first quarter 2006) and second quarter 2005, gross margins would have been 34.1% and 35.0%, respectively.

The following table shows sales by geographic area for the three months ended June 30, 2006 and 2005:

| | 2006 | 2005 |
|-------------------|-----------|-----------|
| | ----- | ----- |
| North America ... | \$ 59,043 | \$ 55,032 |
| Europe | 57,945 | 54,145 |
| Asia | 4,237 | 4,546 |
| Other | 2,352 | 2,448 |
| | ----- | ----- |
| Total | \$123,577 | \$116,171 |
| | ===== | ===== |

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Bioproducts gross sales in the second quarter 2006 of \$41,073 were \$3,083 or 8.1% above the second quarter 2005. Foreign currency had no impact on Bioproducts segment sales.

Within the Bioproducts segment, research products gross sales of \$20,328 were \$1,221 or 6.4% above the second quarter 2005 due primarily to increased sales of molecular biology and cell biology products as a result of stronger demand, higher pricing and timing of shipments. Therapeutic applications gross sales of \$20,745 were \$1,862 or 9.9% above the second quarter 2005 due primarily to increased sales in cell therapy services as a result of the addition of new customers and the timing of shipments partially offset by the termination of a contract. Sales of rapid microbial detection (RMD) products also increased. The increase was partially offset by a decrease in biotherapeutic media due to lower volumes in North America and the delay in the availability of powder facility.

Bioproducts gross margins increased to 51.8% in the second quarter 2006 from 50.9% in the second quarter 2005. Excluding the benefit resulting from a change in allocation methodology, gross margin would have been 50.4% in the second quarter 2006 versus 50.9% in the second quarter 2005. If the Company had applied the new methodology to the second quarter 2006 (excluding the impact related to the first quarter 2006) and second quarter 2005, gross margins would have been 51.1% and 51.4%, respectively. The decrease in margins is primarily due to higher production costs partially offset by increased sales volume, favorable collection experience, price increases and a favorable impact due to foreign currency.

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RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF SECOND QUARTER 2006 VERSUS SECOND QUARTER 2005 (CONTINUED)

Biopharma gross sales in the second quarter 2006 of \$10,010 were \$1,645 or 14.1% below the second quarter of 2005 reflecting lower fees for suites, reimbursed materials and labor fees partially offset by higher process development revenue. Foreign currency had no impact on the Biopharma segment.

Biopharma gross margins decreased to (16.3%) in the second quarter 2006 from (5.2%) in the second quarter 2005. Excluding the benefit resulting from a change in allocation methodology, gross margin would have been (21.3%) versus (5.2%) in the second quarter 2005. If the Company had applied the new methodology to the second quarter 2006 (excluding the impact related to the first quarter 2006) and second quarter 2005, gross margins would have been (18.8%) and (3.8%), respectively. This decline primarily reflects lower revenue and higher production costs.

Human Health gross sales in the second quarter 2006 of \$72,494 were \$5,968 or 9.0% above the second quarter 2005. Foreign currency had no impact on Human Health segment sales.

Within the Human Health segment, sales of Active Pharmaceutical Ingredients ("APIs") of \$54,366 were \$3,056 or 6.0% above the second quarter 2005 primarily due to higher generics sales volume partially offset by lower pricing. Sales of Pharmaceutical Intermediates of \$9,225 were \$1,355 or 17.2% above the second quarter 2005 primarily due to stronger demand for custom development products. Sales of Other Human Health products of \$8,903 were \$1,557 or 21.2% above the second quarter 2005 primarily due to stronger demand for x-ray media and feed additives.

Human Health gross margins decreased to 31.9% in the second quarter 2006

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from 32.4% in the second quarter 2005. Excluding the benefit resulting from a change in allocation methodology, gross margin would have been 31.5% versus 32.4% in the second quarter 2005. If the Company had applied the new methodology to the second quarter 2006 (excluding the impact related to the first quarter 2006) and second quarter 2005, gross margins would have been 31.7% and 32.5%, respectively. This decline is due to continued pricing pressures, unfavorable impact of foreign currency and unfavorable product mix partially offset by higher sales volume.

Selling, general and administrative expenses of \$29,112 or 23.6% of gross sales in the second quarter 2006 increased from \$25,318, or 21.8% in the second quarter 2005. The increase in expense is due primarily to higher administration expenses related to costs associated with the strategic alternative process, the change in allocation methodology from Corporate and higher legal fees and bonus expense. The impact of foreign currency exchange was negligible.

Research and development expenses of \$5,505 were 4.5% of gross sales in the second quarter 2006, compared to \$5,881 or 5.1% of gross sales in the second quarter 2005. The decrease in expense primarily reflects the completion of certain R&D projects for products that have been launched at the end of 2005 and in 2006 in the Bioproducts segments, a reduction of Corporate personnel and lower labor costs. The impact of foreign currency exchange was negligible.

Operating profit in the second quarter 2006 was \$8,156 compared to \$9,071 in the second quarter of 2005. The results reflect lower gross margins and higher operating expenses as discussed above.

Net interest expense of \$2,295 in the second quarter 2006 decreased \$456 from the second quarter 2005 primarily reflecting lower average debt partially offset by higher interest rates. The average interest rate was 5.8% in the second quarter of 2006 versus 5.4% in the second quarter of 2005.

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RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF SECOND QUARTER 2006 VERSUS SECOND QUARTER 2005 (CONTINUED)

The effective tax rate for the second quarter 2006 was 83.1% compared to (10.4%) in the second quarter 2005. The tax provision in the second quarter 2006 increased to \$4,791 compared to a benefit of \$667 in the second quarter of 2005.

The tax rate for the second quarter 2005 includes the favorable settlement of a tax matter in Sweden of \$3,329. Additionally, the results for the second quarter 2006 include larger losses domestically and within certain foreign jurisdictions where the Company is unable to recognize a tax benefit related to these losses within its tax provision. The Company maintains a full valuation allowance against its domestic, and certain foreign, net deferred tax assets and will continue to do so until an appropriate level of profitability is sustained or tax strategies can be developed that would enable the Company to conclude that it is more likely than not that a portion of these net deferred assets would be realized. As such, improvements in domestic, and certain foreign, pre-tax income in the future may result in these tax benefits ultimately being realized. However, there is no assurance that such improvements will be achieved.

Net income in the second quarter of 2006 was \$976, or \$0.04 per diluted share versus \$7,080, or \$0.27 per diluted share in the same period a year ago.

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COMPARISON OF FIRST SIX MONTHS 2006 VERSUS FIRST SIX MONTHS 2005

The following tables show the gross sales of the Company's three segments, in dollars and as a percentage of the Company's total gross sales, for the six months ended June 30, 2006 and 2005.

| | 2006 | | 2005 | |
|-----------------------|-----------|--------|-----------|--------|
| | \$ | % | \$ | % |
| Bioproducts | \$ 82,414 | 33.9% | \$ 77,909 | 34.4% |
| Biopharma | 23,814 | 9.8 | 19,362 | 8.5 |
| Human Health | 136,956 | 56.3 | 129,362 | 57.1 |
| | ----- | ----- | ----- | ----- |
| Total gross sales ... | \$243,184 | 100.0% | \$226,633 | 100.0% |
| | ===== | ===== | ===== | ===== |

The following table shows the gross profit of the Company's three segments for the six months ended June 30, 2006 and 2005.

| | 2006 | | 2005 | |
|------------------|-----------------|----------------|-----------------|----------------|
| | Gross Profit \$ | Gross Margin % | Gross Profit \$ | Gross Margin % |
| Bioproducts | \$44,128 | 53.5% | \$41,471 | 53.2% |
| Biopharma | (618) | (2.6) | (2,663) | (13.8) |
| Human Health ... | 44,183 | 32.3 | 44,724 | 34.6 |
| | ----- | ----- | ----- | ----- |
| Total | \$87,693 | 36.1% | \$83,532 | 36.9% |
| | ===== | ===== | ===== | ===== |

Gross sales for the first six months of 2006 increased 7.3% to \$243,184 from \$226,633 in the first six months of 2005. Sales increased in all segments. Gross sales were unfavorably impacted 2.4% due to exchange rates reflecting a stronger U.S. dollar in the first six months of 2006 versus 2005.

Gross profit in the first six months of 2006 was \$87,693 compared to \$83,532 in the first six months of 2005. Gross margin percentage decreased to 36.1% from 36.9% in the first six months of 2005. As

RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF FIRST SIX MONTHS 2006 VERSUS FIRST SIX MONTHS 2005 (CONTINUED)

mentioned above, the Company reclassified certain employee medical benefit expenses from segment cost of goods sold and operating expense to Corporate operating expenses to better reflect actual costs incurred within the operating segments resulting in increased gross profit of \$1,321 and gross margin percentage of 0.6%. The first six months of 2006 include this benefit. If the

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Company had not made a change to the allocation methodology, gross margin percentage would have been 35.5% in the first six months of 2006 versus 36.9% in the first six months of 2005. If the Company had applied the new methodology to the first six months of 2005, gross margins would have been 37.2%. The reduced gross margin percentage reflects lower margins in the Human Health and Bioproducts segments.

The following table shows sales by geographic area for the six months ended June 30, 2006 and 2005:

| | 2006 | 2005 |
|-------------------|-----------|-----------|
| | ----- | ----- |
| North America ... | \$113,622 | \$104,430 |
| Europe | 115,835 | 107,993 |
| Asia | 8,639 | 9,460 |
| Other | 5,088 | 4,750 |
| | ----- | ----- |
| Total | \$243,184 | \$226,633 |
| | ===== | ===== |

Bioproducts gross sales in the first six months of 2006 of \$82,414 were \$4,505 or 5.8% above the first six months of 2005. Sales were unfavorably impacted 1.9% due to exchange rates reflecting a stronger U.S. dollar in the first six months of 2006 versus 2005.

Within the Bioproducts segment, research products gross sales of \$41,033 were \$1,927 or 4.9% above the first six months of 2005 due primarily to increased sales of molecular biology and cell biology products as a result of stronger demand, higher pricing and timing of shipments. Therapeutic applications gross sales of \$41,381 were \$2,578 or 6.6% above the first six months of 2005 due primarily to increased sales in cell therapy services as a result of the timing of shipments and the addition of new customers. Sales of RMD products also increased due to strong demand and favorable pricing.

Bioproducts gross margins increased to 53.5% in the first six months of 2006, including the benefit due to a change in allocation methodology, from 53.2% in the six months of 2005. Excluding the benefit due to a change in allocation methodology, gross margin would have been 52.9% versus 53.2% in the first six months of 2005. If the Company had applied the new methodology to the first six months of 2005, gross margins would have been 53.7%. The decrease in margins is primarily due to higher production costs partially offset by increased sales volume, prices and a favorable impact due to foreign currency.

Biopharma gross sales in the first six months of 2006 of \$23,814 were \$4,452 or 23.0% above the first six months of 2005 reflecting higher fees from suites, primarily resulting from the shipments, in the first quarter of 2006, of all remaining inventories to a client that terminated their project due to their unfavorable regulatory developments during clinical trials in the fourth quarter of 2005, reimbursed materials and process development, partially offset by lower labor fees. Foreign currency had no impact on the Biopharma segment.

Biopharma gross margins were (2.6%) in the first six months of 2006, including the benefit due to a change in allocation methodology, compared to (13.8%) in the first six months of 2005. Excluding the benefit resulting from a change in allocation methodology, gross margin would have been (4.7%) versus (13.8%) in the first six months of 2005. If the Company had applied the new methodology to the first six months of 2005, gross margins would have been (12.1%). The increase in margins is primarily due to higher revenues partially

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offset by higher production costs.

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RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF FIRST SIX MONTHS 2006 VERSUS FIRST SIX MONTHS 2005 (CONTINUED)

Human Health gross sales for the first six months of 2006 of \$136,956 were \$7,594 or 5.9% above the first six months of 2005. Human Health sales were unfavorably impacted 3.1% due to exchange rates reflecting a stronger U.S. dollar in the first six months 2006 versus 2005.

Within the Human Health segment, sales of APIs of \$105,063 were \$4,996 or 5.0% above the first six months of 2005 primarily due to higher sales volume partially offset by continued price erosion. Sales of Pharmaceutical Intermediates of \$15,778 were \$1,032 or 7.0% above the first six months of 2005 primarily due to stronger demand for custom development products. Sales of Other Human Health products of \$16,115 were \$1,566 or 10.8% above the first six months of 2005 primarily due to stronger demand for x-ray media and feed additives.

Human Health gross margins decreased to 32.3% in the first six months of 2006, including the benefit resulting from a change in allocation methodology, from 34.6% in the first six months of 2005. Excluding the benefit due to a change in allocation methodology, gross margin would have been 32.1% versus 34.6% in the first six months of 2005. If the Company had applied the new methodology to the first six months of 2005, gross margins would have been 34.7%. The decrease in margins is due to continued pricing pressures on APIs and unfavorable impact of foreign currency translation partially offset by lower production costs and higher sales volume.

Selling, general and administrative expenses of \$57,305 or 23.6% of gross sales in the first six months of 2006 increased from \$51,815 or 22.9% in the first six months of 2005. The increase in expense is due primarily to higher administration expenses related to costs associated with the strategic alternative process, the change in allocation methodology from Corporate and higher legal and environmental costs partially offset by the impact of foreign currency exchange.

Research and development expenses of \$11,493 were 4.7% of gross sales in the first six months of 2006, compared to \$11,739 or 5.2% of gross sales in the first six months of 2005. The decrease in expense primarily reflects a reduction of corporate personnel, lower labor costs and the impact of foreign currency partially offset by Cutanogen in process research and development and acquisition costs of \$1,537.

Operating profit in the first six months of 2006 was \$18,895 compared to \$19,978 in the first six months of 2005.

Net interest expense of \$9,648 in the first six months of 2006 increased \$4,167 from the first six months of 2005. The Company incurred costs of \$5,272 associated with the prepayment of Senior Notes. Excluding this charge, net interest expense decreased \$1,105 primarily reflecting lower average debt partially offset by higher interest rates. The average interest rate was 5.5% in the first six months of 2006 versus 5.3% in the first six months of 2005.

The effective tax rate for the first six months of 2006 was 102.2% compared to 22.4% in the first six months of 2005. The tax provision in the first six months of 2006 increased to \$9,332 compared to \$3,230 in the first six months of

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2005.

The tax rate for the first six months of 2005 includes the favorable settlement of a tax matter in Sweden of \$3,329. Additionally, the results for the first six months of 2006 include larger losses domestically and within certain foreign jurisdictions where the Company is unable to recognize a tax benefit related to these losses within its tax provision. The Company maintains a full valuation allowance against its domestic, and certain foreign, net deferred tax assets and will continue to do so until an appropriate level of profitability is sustained or tax strategies can be developed that would enable the Company to conclude

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RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF FIRST SIX MONTHS 2006 VERSUS FIRST SIX MONTHS 2005 (CONTINUED)

that it is more likely than not that a portion of these net deferred assets would be realized. As such, improvements in domestic, and certain foreign, pre-tax income in the future may result in these tax benefits ultimately being realized. However, there is no assurance that such improvements will be achieved.

Net loss in the first six months of 2006 was \$429, or \$0.02 per diluted share versus net income of \$11,170, or \$0.42 per diluted share in the same period a year ago.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Assumptions used in estimating the fair value of stock options granted in the first six months of 2006 are consistent with the assumptions used prior to the adoption of FAS 123(R) with the exception of the expected life. The expected term of 4.75 years was utilized based on Staff Accounting Bulletin No. 107, "Share-Based Payment" "simplified" method for determining the expected term of stock options. As a result of using the "simplified" method, the expected life was shortened by 1.25 years.

FAS 123(R) requires companies to estimate the expected forfeitures for all unvested awards and record compensation costs only for those awards that are expected to vest. As of June 30, 2006, the total compensation cost related to unvested stock option awards granted to employees but not yet recognized was immaterial. The cost will be amortized on a straight-line basis over the remaining weighted average vesting period of 3.7 years.

The amount of stock based compensation costs related to stock options recorded in the three and six months of 2006 was \$157 and \$158, respectively. Diluted earnings per share changed by \$0.01 for the three and six months ended June 30, 2006 as a result of adopting FAS 123(R) on January 1, 2006.

At June 30, 2006, the Company has outstanding 150,000 fully-vested cash-settled incentive SARs at a price of \$19.30. These SARs are classified as liability awards and, as such, will be recorded at fair value until the rights are exercised or expire with the amount being recorded as compensation expense or benefit in the applicable period. For the three and six months ended June 30, 2006 the Company recorded, at fair market value, \$46 and \$264, respectively, in compensation expense. For the three and six months ended June 30, 2005, the Company recorded, at intrinsic value, \$300 and \$1,170 respectively, in compensation benefit. In addition, the Company also recorded \$228 in

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compensation expense as a cumulative effect of a change in accounting principle in accordance with FAS 123(R). Under FAS 123(R), the Company is required to measure the SARs at fair market value. Prior to adopting FAS 123(R), the SARs were measured at the intrinsic value.

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)" which is effective for fiscal years beginning after December 15, 2006 with earlier adoption encouraged. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is currently evaluating the potential impact of this interpretation.

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RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased \$15,649 in the first six months of 2006. During the six months ended June 30, 2006, the Company generated cash flows from operations totaling \$3,988, a decrease of \$6,314 versus the same period a year ago. The decrease in cash flows generated from operations in the first six months of 2006 versus the first six months of 2005 is due primarily to a decrease in net income. The decrease was partially offset by favorable working capital.

Capital expenditures from continuing operations were \$17,633 in the first six months of 2006 as compared to \$18,077 in 2005. Part of the funds in 2006 were used for cell therapy manufacturing capabilities at the Bioproducts facility in Walkersville, MD, a new warehouse and API purification and finishing facility in Milan, Italy and capital improvements to existing facilities.

Cash flows used in financing activities in the first six months of 2006 of \$2,913 include net pay down of debt of \$2,463 and dividends paid of \$1,604 partially offset by proceeds from stock options exercised of \$1,267. In the first six months of 2005 financing activities include a net pay down of debt of \$26,298, dividends paid of \$1,584 offset by proceeds from stock options exercised of \$170.

During the first six months of 2006 and 2005, the Company paid cash dividends of \$0.06 per share.

Management believes that existing sources of capital, together with cash flows from operations, will be sufficient to meet foreseeable cash flow requirements.

FORWARD-LOOKING STATEMENTS

This document may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Rule 3b-6 under The Securities Exchange Act of 1934, including, without limitation, statements regarding expected performance, especially expectations with respect to sales, research and development expenditures, earnings per share, capital expenditures, acquisitions, divestitures, collaborations, or other expansion opportunities. These statements may be identified by the fact that they use words such as "expects," "anticipates," "intends," "estimates," "believes" or similar

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expressions in connection with any discussion of future financial and operating performance. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Form 10-Q. The forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations including, but not limited to, global economic trends, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and/or regulations (particularly environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, changes in foreign exchange rates, performance of minority investments, uncollectable receivables, loss on disposition of assets, cancellation or delays in renewal of contracts, lack of suitable raw materials or packaging materials, the possibility that the value of the acquisition of PermaDerm cultured skin may not be realized or that our plans to obtain a Humanitarian Device Exemption, completion of clinical trials and commercialization of PermaDerm cultured skin in the United States may not be successful, and the Company's ability to receive regulatory approvals for its products. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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FORWARD-LOOKING STATEMENTS (CONTINUED)

For further details and a discussion of these and other risks and uncertainties, investors are cautioned to review the Cambrex 2005 Annual Report on Form 10-K, including the Forward-Looking Statement section therein, and other filings with the U.S. Securities and Exchange Commission. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the first six months of 2006. 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, 2005.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Disclosure controls include components of

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internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States.

As reported in its annual report on Form 10-K for the year ended December 31, 2005, the Company's management identified a material weakness in its internal control over accounting for income taxes. Specifically, the Company did not have a sufficient level of experienced personnel to enable the Company to properly consider and apply generally accepted accounting principles to the accounting for income taxes. Additionally, the Company did not maintain effective controls to determine the completeness and accuracy of the components of the income tax provision calculations and the related deferred income taxes and income taxes payable, including the monitoring of the differences between the tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the deferred taxes balances. As a result of this material weakness, management concluded in its 2005 annual report on Form 10-K that the Company's internal controls over financial reporting was not effective as of December 31, 2005.

During the six months ended June 30, 2006, the Company has added experienced personnel and implemented additional controls and procedures in order to remediate the material weakness discussed above, and it is continuing to assess the need for additional controls, procedures and resources that may be required to remediate the material weakness. The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2006, pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) (the "Exchange Act"). As part of its evaluation, management has evaluated whether the material weakness in internal control over financial reporting continues to exist. The Company continues to consider or implement additional controls, procedures and resources impacting its accounting for income taxes. The Company has not completed its remediation activities and testing of the changes in controls and procedures which it believes are necessary to conclude that the material weaknesses have been remediated. As a result, the Company's management has concluded that it cannot assert that the material weakness has been effectively remediated as of June 30, 2006. Based upon this conclusion, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2006.

The Company believes that the actions it has taken to date, including the changes outlined below, are sufficient, such that the information contained in this quarterly report fairly states, in all material respects, the financial condition and results of operations of the Company for the periods presented.

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ITEM 4. CONTROLS AND PROCEDURES (CONTINUED)

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

During the six months ended June 30, 2006, management has taken the following actions listed below to remediate the material weakness described in the Company's annual report on Form 10-K for the year ended December 31, 2005:

- Strengthened procedures whereby the current income tax payable account and deferred income tax asset and liability accounts are reconciled on a regular and timely basis.

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- Increased level of review and discussion of significant tax matters and supporting documentation with senior finance management.
- Hired a Senior Director and Director of Tax.
- Identified interim personnel to augment existing corporate tax staff to ensure there are adequate resources to reconcile all tax-related accounts for each reporting period.

The Company continues to identify other controls, procedures, and resources to improve both the preparation and review of accounting for income taxes. We expect to complete this process and implement additional procedures to address this material weakness during the second half of 2006. We believe that, once fully implemented, these remediation steps will be sufficient to eliminate the material weakness described above.

There have been changes in the Company's internal control over financial reporting during the Company's most recently completed quarter that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

CAMBREX CORPORATION AND SUBSIDIARIES

ITEM 1 LEGAL PROCEEDINGS

See the discussion under Part I, Item 1, Note 13 to the Consolidated Financial Statements.

ITEM 1A RISK FACTORS

There have been no material changes to our risk factors and uncertainties during the first six months of 2006. 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, 2005.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

In April 2006, the Company issued an aggregate of 18,500 shares of common stock of Cambrex to certain current and former employees ("Employees") pursuant to the exercise of options granted in accordance with the terms of the Cambrex Corporation 1996 Performance Stock Option Plan. In addition, 3,000 shares of common stock of Cambrex were previously issued to certain current and former directors (the "Directors" and together with the Employees hereafter referred as the "Selling Shareholders") pursuant to the terms of the Cambrex Corporation 1996 Performance Stock Option Plan. The 21,500 shares of common stock, par value \$.10 per share, of Cambrex may be offered or sold from time to time by the Selling Shareholders. The Selling Shareholders acquired the shares pursuant to the exercise of options granted in accordance with the terms of the Cambrex Corporation 1996 Performance Stock Option Plan.

| Purchaser | Number of Unregistered Shares Offered | Date of Sale |
|-----------|--|--------------|
|-----------|--|--------------|

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| | | |
|--------------------|-------|---------|
| Stephen Colasuonno | 500 | 4/25/06 |
| Dave Goodman | 3,000 | 4/25/06 |
| George Goodman | 1,500 | 4/25/06 |
| Leon Hendrix Jr. | 1,500 | 4/25/06 |
| Theresa Hernan | 4,500 | 4/25/06 |
| Carl Johansson | 4,500 | 4/25/06 |
| Michael Lafond | 4,500 | 4/25/06 |
| Ulf Sjostrand | 1,000 | 4/25/06 |
| Roop Kumar | 500 | 4/24/06 |

The total aggregate offering price for these shares is approximately \$453 based on the average of the high and low prices for shares of common stock of Cambrex as reported on the New York Stock Exchange on July 31, 2006. The price at which a Selling Shareholder may sell any shares of common stock will be determined by the prevailing market price for such shares or through a privately negotiated transaction. The Company will receive no part of the proceeds of any sale of such shares made hereunder.

Exception for the original issuance of the shares of common stock which may be offered or sold from time to time by the Selling Shareholders is claimed under Section 4(2) of the Securities Act of 1933, as amended.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

1. At the Annual Meeting of Stockholders held on July 27, 2006, two Directors in Class I were elected to hold office as Directors of the Company until the 2009 Annual Meeting of Stockholders.

| Nominees | Votes For | Votes Withheld |
|------------------------|------------|----------------|
| ----- | ----- | ----- |
| David R. Bethune | 21,255,420 | 3,739,706 |
| Kathryn Rudie Harrigan | 20,390,380 | 4,604,746 |

2. The Stockholders voted for the appointment of PricewaterwaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2006.

| Votes For | Votes Against | Votes Abstained | Unvoted |
|------------|---------------|-----------------|---------|
| ----- | ----- | ----- | ----- |
| 24,337,086 | 643,348 | 14,691 | -- |

3. Also, the Stockholders voted to declassify the Board of Directors so that all directors are elected annually.

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| Votes For | Votes Against | Votes Abstained | Unvoted |
|------------|---------------|-----------------|-----------|
| 21,128,889 | 1,577,805 | 47,181 | 2,241,251 |

ITEM 6. EXHIBITS

Exhibits

1. Exhibit 31.1 - CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
2. Exhibit 31.2 - CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
3. Exhibit 32.1 - CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
4. Exhibit 32.2 - CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

CAMBREX CORPORATION

By /s/ Luke M. Beshar

Luke M. Beshar
Executive Vice President and
Chief Financial Officer
(On behalf of the Registrant and
as the Registrant's Principal
Financial Officer)

Dated: August 8, 2006

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