CAMBREX CORP
Form 10-K
March 15, 2007

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-10638

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

Delaware	**22-2476135**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Meadowlands Plaza, East Rutherford, New Jersey	**07073**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.10 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12 (g) of the Act: (None)

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o. No þ.

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o. No þ.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ. No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $546,922,749 as of June 30, 2006.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of February 28, 2007, there were 28,269,931 shares outstanding of the registrant s Common Stock, $.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement for the 2007 Annual Meeting are incorporated by reference into Part III of this Report.

CAMBREX CORPORATION AND SUBSIDIARIES

INDEX TO ANNUAL REPORT ON
FORM 10-K FILED WITH THE
SECURITIES AND EXCHANGE COMMISSION
For the Year Ended December 31, 2006

PART I

Item 1 *Business*

General

Cambrex Corporation (the Company or Cambrex), a Delaware corporation, began business in December 1981. Cambrex is a life sciences company dedicated to providing products and services that accelerate and improve the discovery and commercialization of human therapeutics. The Company primarily supplies its products and services worldwide to pharmaceutical and biopharmaceutical companies, generic drug companies, biotechnology companies and research organizations. The Company reports financial results in three segments: Bioproducts, Biopharma and Human Health. The Company s overall strategy is to focus on niche life sciences markets with global opportunities, support state-of-the-art technology, and demonstrate excellence in regulatory compliance, environmental, health and safety performance, and customer service. As part of the process of evaluating strategic alternatives to enhance shareholder value, the sale of the Cork and Landen businesses within the Human Health segment was completed on October 27, 2006, and accordingly, these businesses are being reported as discontinued operations in all periods presented. As discussed in Note 21, the Company completed the sale of the Bioproducts and Biopharma businesses on February 6, 2007.

The Company uses a consistent business approach in each of its segments:

Niche Market Focus: The Company participates in niche markets where significant technical expertise provides competitive advantage and market differentiation.

Market Leadership: The Company secures leading market positions through excellent customer service, proprietary technologies, specialized capabilities and an outstanding regulatory record and leverages these capabilities across the market segments in which it participates.

New Products and Services: The Company continues to invest in research and product development in order to introduce innovative products and services to accelerate revenue growth, provide competitive advantage and maintain its leading market positions. The new products and services are developed to address the changing needs of life sciences customers for increased automation, speed-to-market and testing relevance.

Operational Excellence: The Company maintains its commitment to continually improve productivity and customer service levels and maintains excellent quality and regulatory compliance systems.

Acquisition and Licensing: The Company may drive growth in strategic business segments through the prudent acquisition of products, product lines, technologies and capabilities to enhance the Company s position in its niche markets.

Market Overview and Growth Drivers

The Company participates in markets that serve the healthcare industry. Customers include companies and institutions that discover and commercialize therapeutics such as traditional drugs (made using organic chemistry), biologics and cell based therapies.

The aging population, continued investment in healthcare research and drug development and the necessity to develop life saving therapeutics to address unmet needs drives business growth in life sciences companies serving the healthcare market. Aging baby boomers in the United States, Europe and Japan may provide an enormous healthcare opportunity. This group typically has more education, a higher socio-economic level, and higher demands for healthcare services than previous generations.

Demand for Cambrex products and services is increased by its customers financial resources to advance their research and development projects for therapeutic candidates from the laboratory to the clinic, and eventually, to the patient. Healthcare investment comes from a variety of sources. Large pharmaceutical and biotechnology companies spend billions on drug discovery and development. Research institutions may be funded by the government,

business or private sectors. Venture capital and initial public offering investments remained robust in 2006 allowing companies to continue to spend on drug development and commercialization.

It is estimated that getting a drug to market may take up to sixteen years. With the need to get new drugs to market faster, pharmaceutical companies make huge investments in drug discovery and require a continuing stream of innovative research tools to accelerate the drug discovery process. More and more cellular models are being used to understand the mechanism of disease and the efficacy and toxicity of drug candidates. Demand for rapid, accurate tests to assess drug candidates is growing. Cambrex is a leading provider of the tools and testing products used in the drug discovery process.

Once a drug is identified, companies need to develop a robust process for the manufacture of clinical and commercial quantities. Product testing and quality processes need to be integrated into the manufacturing process. This is a critical step to getting a commercially viable drug to market. Cambrex excels in the manufacture and testing of active pharmaceutical ingredients (APIs) and drug substances at laboratory, clinical and commercial scale and specializes in optimizing manufacturing processes.

Demand for outsourced services from pharmaceutical companies continues to grow. Large pharmaceutical and biotechnology companies may outsource the development and manufacturing of a drug substance to manage multiple internal priorities, access new technologies or additional capacity, preserve needed capital or ensure multiple sources of supply. Emerging pharmaceutical, biotechnology and many generic drug companies outsource all process development and manufacturing. Cambrex is particularly well positioned to assist drug companies with these much needed services for traditional APIs, biologics and cell therapies.

New drugs are typically patented. When the patent expires, the drug may be manufactured and marketed in its generic form. Growth in the generic drug market is driven by the continuing stream of drug patents that will expire in the future and favorable market forces that encourage the use of generic pharmaceuticals as a more cost effective health care alternative to higher-priced branded drugs. In the United States and many countries in Europe, governments and prescription benefit management companies provide incentives for generic substitution to reduce costs. Cambrex s active pharmaceutical ingredients are used in over 100 niche generic drugs globally.

The market for human therapeutics is regulated by the Food and Drug Administration (FDA) and other regulatory agencies through the development, manufacturing and commercialization process. The FDA approves human therapeutics and regulates manufacturing. Excellent regulatory and quality systems are essential to serve the industry.

Asian competitors have increased their capabilities in drug substance manufacturing and finished dosage form drugs in recent years. Although there has been limited direct impact on the Company s niche products, the presence of these competitors in the market has resulted in downward pricing pressure on generic active pharmaceutical ingredients. Regulatory compliance and product quality may determine the long term impact of these competitors.

Development of the Business

The discussion below provides insight to the general development of our business, including the material acquisitions and disposition of assets over the past five years.

On January 1, 2002, the Company realigned the organization to focus on life sciences. The operating units that primarily produced specialty and fine chemicals, and animal health and agriculture products were combined to form a new subsidiary, Rutherford Chemicals, Inc.

On November 10, 2003, the Company sold its Rutherford Chemicals business for a sale price of up to $65,000, consisting of $55,000 in cash paid at closing, a $2,000 subordinated 12% interest bearing note, and an $8,000 performance-based cash earn-out if certain future operating profit targets are achieved. The sale of Rutherford Chemicals represents the completion of the transformation from a specialty chemical organization into a leading life sciences company.

(dollars in thousands, except share data)

On October 2, 2004, Cambrex France SARL, one of the Company s subsidiaries, acquired Genolife SA for approximately $6,000 in cash. Genolife, renamed Cambrex Bio Science Clermont Ferrand SAS, located in Saint Beauzire, France, specializes in rapid microbial detection testing for the pharmaceutical, agriculture, food, and cosmetic industries. The acquisition complements the Company s endotoxin and mycoplasma detection product lines and builds upon its testing reagent and service franchise.

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. 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 are reported as part of the Bioproducts segment.

On October 19, 2006, the Company signed a definitive stock purchase agreement to sell two businesses within the Human Health segment to a holding company controlled by International Chemical Investors II S.A. for nominal consideration. The sale was completed on October 27, 2006. As a result of this transaction, the Cork and Landen businesses are being reported as discontinued operations in all periods presented.

On October 23, 2006, the Company entered into a definitive stock purchase agreement with Lonza Group AG for the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) for total cash consideration of $460,000. This sale was completed on February 6, 2007. The results of these two segments are reported as continuing operations in all periods presented. The Company will begin reporting these segments as discontinued operations during the first quarter of 2007.

Products

The Company uses its technical expertise in a wide range of chemical and biological processes to meet the needs of its customers for high quality products and services for specialized applications.

The following table presents gross sales from the Company s three segments:

	Years Ended December 31		
	2006	**2005**	**2004**
Bioproducts	$ 163,119	$ 149,498	$ 136,108
Biopharma	52,477	41,698	43,270
Human Health	236,659	223,565	216,528
Gross Sales	$ 452,255	$ 414,761	$ 395,906

Bioproducts: The Bioproducts segment consists of research products (including cell biology products, cell based assays and molecular biology products) and therapeutic applications (including endotoxin detection products, biotherapeutic media and serum products and cell therapy and related services). The Company manufactures more than 1,800 products which are sold to more than 14,000 customers worldwide with no one customer accounting for over 10% of 2006 sales in this segment.

This table summarizes the gross sales by product category for this segment:

	2006	2005	Change	% Change
Research products	$ 80,394	$ 75,810	$ 4,584	6.0%
Therapeutic applications	82,725	73,688	9,037	12.3%
Total Bioproducts	$ 163,119	$ 149,498	$ 13,621	9.1%

Bioproducts sales of $163,119 were $13,621 or 9.1% above 2005. Bioproducts sales were favorably impacted 0.4% due to exchange rates reflecting a weaker U.S. dollar.

(dollars in thousands, except share data)

Research products of $80,394 were $4,584 or 6.0% higher than prior year due primarily to increased sales in cell biology and molecular biology products resulting from stronger demand, price increases and new products.

Therapeutic applications sales of $82,725 were $9,037 or 12.3% higher than prior year due to higher sales of cell therapy services due to the addition of new customers and rapid microbial detection products reflecting increased purchasing levels.

Biopharma: The Biopharma segment consists of the Company s contract biopharmaceutical process development and manufacturing business. Biopharma sales of $52,477 were $10,779 or 25.9% above 2005. The sales increase primarily reflects higher suite and process development revenue partially offset by lower labor fees and reimbursed material revenue. Foreign currency had no impact on Biopharma sales. There was one customer that individually accounted for 10% of 2006 sales in this segment.

Human Health: The Human Health segment is primarily comprised of the custom development and manufacture of pharmaceutical ingredients derived from organic chemistry. Products and services are supplied globally to innovative and generic drug companies. Products include active pharmaceutical ingredients and advanced pharmaceutical intermediates. Services include custom development and GMP manufacturing services.

The Human Health segment is classified into three product groups: (1) APIs, (2) pharmaceutical intermediates, and (3) other. These products and services are sold to a diverse group of more than 1,100 customers, with two customers individually accounting for more than 10% of 2006 sales in this segment; one, a pharmaceutical company with which a long-term sales contract is in effect that is scheduled to expire at the end of 2008, accounted for 12.3%. The Company is currently in negotiations to extend this contract to 2013 which, if the Company elects to do so, will result in significantly lower profitability for sales under this arrangement in 2007 and 2008. There is no guarantee that this contract will be renewed. A second customer, a distributor representing multiple customers, accounted for 14.4%. Human Health products are sold through a combination of direct sales and independent agents. One active pharmaceutical ingredient makes up 15.3% of 2006 sales in this segment.

This table summarizes the gross sales for this product segment:

	2006	2005	Change	% Change
Active pharmaceutical ingredients	$ 176,407	$ 162,710	$ 13,697	8.4%
Pharmaceutical intermediates	29,786	30,578	(792)	(2.6)%
Other	30,466	30,277	189	0.6%
Total Human Health	$ 236,659	$ 223,565	$ 13,094	5.9%

Human Health sales of $236,659 increased $13,094 or 5.9% including a 0.5% favorable impact due to exchange rates reflecting the weaker U.S. dollar.

Sales of APIs of $176,407 were $13,697 or 8.4% above the prior year due primarily to higher demand for certain central nervous system and cardiovascular APIs, nicotine polacrilex resin (used in smoking cessation products) and higher sales of a diuretic API, partially offset by lower sales of a gastrointestinal API due to weaker demand.

Pharmaceutical intermediates sales of $29,786 were $792 or 2.6% below 2005 primarily due to lower sales of an end-stage kidney treatment product due to decreased demand.

Other sales of $30,466 were $189 or 0.6% above the prior year due primarily to higher volumes of x-ray media, partially offset by lower sales of feed additive products.

Marketing and Distribution

The Company s Human Health and Biopharma segments generally include higher value, low-to-medium volume niche products requiring significant technical expertise to develop and manufacture. Marketing generally requires significant cooperative effort among a highly trained sales and marketing staff, a scientific staff that can

(dollars in thousands, except share data)

assess the technical fit and estimate manufacturing economics and the business unit management to determine the strategic and business fit. The process to take a client s project from the clinical trial stage to a commercial, approved therapeutic may take from two to ten years. The Company uses sales agents in those areas where direct sales efforts are not economical.

For the Bioproducts segment, the Company markets and sells its products in the United States and Europe principally through its own direct sales force. The remaining international markets are served principally through an extensive network of independent distributors. The Company has also implemented an e-commerce website to market and sell these products in the United States and Europe.

Raw Materials

The Company uses a wide array of raw materials in the conduct of its businesses.

For its Human Health products, the Company generally will have a primary and secondary supplier for its critical raw materials. Prices for these raw materials are generally stable except for the petroleum-based solvents where prices can vary with market conditions.

For its Bioproducts products, the Company buys materials from many suppliers and is generally not dependent on any one supplier or group of suppliers. There is a well-established market for raw fetal bovine serum but price and supply are cyclical and fluctuate. Bovine spongiform encephalopathy, also known as mad cow disease, can periodically restrict the locations from which the Company can import fetal bovine serum. The Company also has a long-term contract with one company to supply agarose, the key raw material used to make electrophoresis media products.

The other key raw materials used by all segments of the Company are advanced organic intermediates that generally have been in adequate supply from multiple suppliers.

Research and Development

The Company s research and development program is designed to increase the Company s competitiveness by improving its technology and developing processes for the manufacture of new products to meet customer requirements. The goals are to introduce innovative products; improve manufacturing processes to reduce costs, improve quality and increase capacity; to identify market opportunities that warrant significant technical expertise, and offer the prospects of a long-term, profitable business relationship. Research and development activities are performed at most of the Company s manufacturing facilities in both the United States and Europe. Approximately 130 employees are involved directly in research and development activities worldwide.

The Cambrex Center of Technical Excellence, a research and development organization located in The Technology Centre of New Jersey in North Brunswick, NJ, helps place the Company in a unique position to be a full-service resource for pharmaceutical and biotechnology companies throughout the drug development cycle.

The Company spent $21,190, $21,469 and $18,759 in 2006, 2005 and 2004, respectively, on research and development efforts.

Patents and Trademarks

The Company has patent protection in many of its product areas. In addition, the Company also relies on know-how and trade secrets (related to many of its manufacturing processes and techniques not generally known to other life sciences companies) for developing and maintaining its market position.

Worldwide, the Company currently owns approximately 150 granted/in-force patents which have various expiration dates, the latest of which is in 2029 and which cover selected items in each of the Company s major product areas. In addition, the Company has applied for patents for various inventions and is in the process of preparing patent applications for other inventions.

(dollars in thousands, except share data)

The Company has trademarks registered in the United States and a number of other countries for use in connection with the Company s products and business. The Company also holds common law trademark rights for several marks. The Company believes that many of its trademarks are generally recognized in its industry. Such trademarks include Poietics®, Clonetics®, MYCOAlert®, NuSieve®, Reliant®, Latitude®, PAGEr®, MetaPhor®, AccuGENE® and BioWhittaker®.

The Company requires employees to sign confidentiality and ownership of inventions agreements where appropriate.

Competition

In the Bioproducts segment, no one company is known to compete with the Company in all of its product groups, but in each group competition is offered by a number of companies, including in some cases, firms substantially larger and with greater financial resources than the Company. The markets in which the Company competes are generally concentrated and are highly competitive, with competition centering on product specifications and performance, quality, depth of product line, price, technical support, innovative product development and on time delivery.

In the Biopharma segment, the competitors include therapeutic companies and other companies that supply contract biopharmaceutical development and manufacturing services to biotech companies. Generally, the competition focuses on larger quantities and scale of manufacturing capacity. Cambrex differentiates its services by concentrating on small to medium scale process development and manufacturing services, an excellent regulatory compliance record, experience producing vaccines and approved drugs, a commitment to quality, and world-class early development services.

In the Human Health segment, the Company has two primary groups of competitors; those that produce generic active pharmaceutical ingredients and those that provide development and manufacturing services for branded active pharmaceutical ingredients and intermediates. For generic active pharmaceutical ingredients, there are approximately five primary competitors which are located in Europe. For competitors that provide custom development and manufacturing services for branded active pharmaceutical ingredients, there are approximately twenty competitors, six of which are large multinational companies that also produce fine chemicals. More recently, competitors from Asia have entered the market for larger volume active pharmaceutical ingredients. While there has been limited impact on the specific products the Company produces, it is expected that regulatory compliance, product quality and logistics will determine the long term impact of these competitors in the market. If the Company perceives significant competitive risk and a need for technical or financial commitment, it generally negotiates long term contracts or guarantees from its customers.

Environmental and Safety Regulations and Proceedings

General: Certain products manufactured by the Company involve the use, storage and transportation of toxic and hazardous materials. The Company s operations are subject to extensive international and domestic federal, state and local laws and regulations relating to the storage, handling, emission, transportation and discharge of materials into the environment and the maintenance of safe working conditions. The Company maintains environmental and industrial safety and health compliance programs at its plants and believes that its manufacturing operations are in compliance with all applicable safety, health and environmental laws.

The Company conducts detailed environmental due diligence on all acquisitions. The Company s acquisitions were made with consideration of any known environmental conditions. Also, as with other companies engaged in our industry, risks of substantial costs and liabilities are inherent in certain plant operations and certain products produced at the Company s plants. Additionally, prevailing legislation tends to hold companies primarily responsible for the

proper disposal of their wastes even after transferal to third party waste disposal facilities. Moreover, other future developments, such as increasingly strict environmental, safety and health laws and regulations, and enforcement policies there under, could result in substantial costs and liabilities to the Company and could subject the Company s handling, manufacture, use, reuse, or disposal of substances or pollutants at its plants to more

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rigorous scrutiny than at present. Although the Company has no direct operations and conducts its business through subsidiaries, certain legal principles that provide the basis for the assertion against a parent company of liability for the actions of its subsidiaries may support the direct assertion against the Company of environmental liabilities of its subsidiaries.

Known environmental matters which may result in liabilities to the Company and the related estimates and accruals are summarized in Note 19 to the Cambrex Corporation and Subsidiaries Consolidated Financial Statements.

Present and Future Environmental Expenditures: The Company s policy is to comply with all legal requirements of applicable environmental, health and safety laws and regulations. The Company believes it is in compliance with such requirements and has adequate professional staff and systems in place to remain in compliance. In some cases, compliance can only be achieved by capital expenditures and the Company made capital expenditures of $2,823 in 2006, $2,152 in 2005, and $3,304 in 2004 for environmental projects. As the environmental proceedings in which the Company is involved progress from the remedial investigation and feasibility study stage to implementation of remedial measures, related expenditures may increase. The Company considers costs for environmental compliance to be a normal cost of doing business and includes such costs in pricing decisions.

Item 1A ***Risk Factors***

Factors That May Affect Future Results

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. If any of the following risks occur, the Company s business, financial condition, operating results and cash flows could be materially adversely effected. The risks and uncertainties described below are not the only ones the Company faces. Additionally, risks and uncertainties not presently known to the Company or that it currently deems immaterial also may impair its business, financial condition, operating results and cash flows in the future.

We may pursue transactions that may cause us to experience significant charges to earnings that may adversely affect our stock price and financial condition.

We regularly review potential transactions related to technologies, products, product rights and businesses complementary to our business. These transactions could include mergers, acquisitions, divestitures, strategic alliances or licensing agreements. In the future, we may choose to enter into these transactions at any time. As a result of acquiring businesses or entering into other significant transactions, we have previously experienced, and may continue to experience, significant charges to earnings for merger and related expenses that may include transaction costs, closure costs or costs related to the write-off of acquired in-process research and development. These costs may also include substantial fees for investment bankers, attorneys, accountants, financial printing costs, severance and other closure costs associated with the elimination of duplicate or discontinued products, employees, operations and facilities.

If we make acquisitions, we may experience difficulty integrating the businesses.

We continually explore and conduct discussions with many third parties regarding possible acquisitions. Our ability to continue to achieve our goals may depend upon our ability to effectively integrate such businesses, to achieve cost efficiencies and to manage these businesses as part of our company. However, we may experience difficulty integrating the merged companies. As a result of uncertainty following an acquisition and during the integration process, we could experience disruption in our business or employee base. There is also a risk that key employees of the combined company may seek employment elsewhere, including with competitors, or that valued employees may be lost upon the elimination of duplicate functions. If we are not able to successfully blend our products and

technologies with the acquired business to create the advantages the acquisition was intended to create, it may effect our results of operations, our ability to develop and introduce new products and the market price

(dollars in thousands, except share data)

of our common stock. Furthermore, there may be overlap between our products, services or customers, and the combined company may create conflicts in relationships or other commitments detrimental to the integrated businesses.

If we fail to improve the operations of future acquired businesses, we may be unable to achieve our growth strategy.

Some of the businesses we have acquired or will acquire had or may have significantly lower operating margins than we do and/or operating losses prior to the time we acquired them. In the past, we have occasionally experienced temporary delays in improving the operating margins of these acquired businesses. In the future, if we are unable to improve the operating margins of acquired businesses or operate them profitably, we may be unable to achieve our growth strategy.

Companies may discontinue or decrease their usage of our services.

We have observed increasing pressure on the part of our customers to reduce spending, including the use of our services, as a result of negative economic trends generally and in the pharmaceutical industry. These customers could discontinue or decrease their usage of our services, including as a result of an economic slowdown in the overall United States or foreign economies.

Competition and/or a reduction in demand for our products could reduce sales.

The markets for our products are competitive and price sensitive. Other suppliers have significant financial, operational, sales and marketing resources, and experience in research and development. These and other companies may have developed or could in the future develop new technologies that would compete with our products or render our products obsolete. In addition, demand for our products may weaken due to reduction in research and development budgets, loss of distributors or other factors.

The markets for certain of our products are also subject to specific competitive risks and can be highly price competitive. Our competitors have competed in the past by lowering prices on certain products. Our competitors may lower prices on these or other products in the future and we may, in certain cases, respond by lowering our prices. Conversely, failure to anticipate and respond to price competition may hurt our market share.

We believe that customers in our markets display loyalty to their initial supplier of a particular product. Therefore, it may be difficult to generate sales to potential customers who have purchased products from competitors. To the extent we are unable to be the first to develop and supply new products, our competitive position may suffer.

Our failure to obtain new contracts or renewed contracts or cancellation of existing contracts may adversely affect our business.

Many of our contracts are short-term in duration. As a result, we must continually replace our contracts with new contracts to sustain our revenue. In addition, many of our long-term contracts may be cancelled or delayed by clients for any reason upon notice. The Company currently has a long-term sales contract within the Human Health segment that accounts for more than 10% of segment sales that is scheduled to expire at the end of 2008. There is no guarantee that this contract will be renewed.

Our operating results may unexpectedly fluctuate in future periods.

The Company s revenue and operating results have fluctuated, and could continue to fluctuate, on a quarterly basis. The operating results for a particular quarter may be lower than expected as a result of a number of factors, including the timing of contracts; the delay or cancellation of a contract; the mix of services provided; seasonal slowdowns in different parts of the world; the timing of start-up expenses for new services and facilities; and changes in government regulations. Because a high percentage of the Company s costs are relatively fixed in the short term (such as the cost of maintaining facilities and compensating employees), any one of these factors could

have a significant impact on the Company s quarterly results. In some quarters, the Company s revenue and operating results may fall below the expectations of securities analysts and investors due to any of the factors described above. In such event, the trading price of the Company s common stock would likely decline, even if the decline in revenue did not have any long-term adverse implications for the Company s business.

Failure to obtain products and components from third-party manufacturers could affect our ability to manufacture and deliver our products.

We rely on third-party manufacturers to supply many of our raw materials, product components, and in some cases, entire products. In addition, we have a single source for supplies of some raw materials and components to our products. Manufacturing problems may occur with these and other outside sources. If such problems occur, we cannot ensure that we will be able to manufacture our products profitably or on time.

Any significant reduction in government regulation of the drug development process could have a material adverse effect on our business.

The manufacturing of pharmaceutical products are subject to extensive regulation by governmental authorities, including the FDA and comparable regulatory authorities in other countries. The Company s business depends in part on strict government regulation of the drug development process. Legislation may be introduced and enacted from time to time to modify regulations administered by the FDA and governing the drug approval process. Any significant reduction in the scope of regulatory requirements or the introduction of simplified drug approval procedures could have a material adverse effect on the Company s business.

Violations of cGMP and other government regulations could have a material adverse effect on our business.

All facilities and manufacturing techniques used for manufacturing of products for clinical use or for commercial sale in the United States must be operated in conformity with current Good Manufacturing Practices (cGMP) regulations as required by the FDA. The Company s facilities are subject to scheduled periodic regulatory and customer inspections to ensure compliance with cGMP and other requirements applicable to such products. A finding that the Company had materially violated these requirements could result in regulatory sanctions, the loss of a customer contract, the disqualification of data for client submissions to regulatory authorities and/or a mandated closing of the Company s facilities. Any such material violations would have a material adverse effect on the Company s business.

Litigation may harm our business or otherwise negatively impact our management and financial resources.

Substantial, complex or extended litigation could cause the Company to incur large expenditures and distract our management. For example, lawsuits by employees, stockholders, counterparties to acquisition and divestiture contracts, collaborators, distributors, customers, or end-users of our products or services could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes out of court or on terms favorable to the Company.

Refer to Note 19 for a discussion of the Company s environmental and legal matters.

Loss of key personnel could hurt our business.

The Company depends on a number of key executives. The loss of services of any of the Company s key executives could have a material adverse effect on the Company s business.

The Company also depends on its ability to attract and retain qualified scientific and technical employees. There can be no assurance the Company will be able to retain its existing scientific and technical employees, or to

(dollars in thousands, except share data)

attract and retain additional qualified employees. The Company s inability to attract and retain qualified scientific and technical employees would have a material adverse effect on the Company s business.

Potential product liability claims, errors and omissions claims in connection with services we perform and potential liability under indemnification agreements between us and our officers and directors could adversely effect our business.

The Company manufactures products intended for use by the public. These activities could expose the Company to risk of liability for personal injury or death to persons using such products, although the Company does not presently market or sell the products to end users. The Company seeks to reduce its potential liability through measures such as contractual indemnification provisions with clients (the scope of which may vary from client-to-client, and the performances of which are not secured), exclusion of services requiring diagnostic or other medical services, and insurance maintained by clients. The Company could be materially and adversely effected if it were required to pay damages or incur defense costs in connection with a claim that is outside the scope of the indemnification agreements, if the indemnity, although applicable, is not performed in accordance with its terms or if the Company s liability exceeds the amount of applicable insurance or indemnity. In addition, the Company could be held liable for errors and omissions in connection with the services it performs. The Company currently maintains product liability and errors and omissions insurance with respect to these risks. There can be no assurance, however, that the Company s insurance coverage will be adequate or that insurance coverage will continue to be available on terms acceptable to the Company.

The Company also indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy that covers a portion of any potential exposure. The Company could be materially and adversely effected if it were required to pay damages or incur legal costs in connection with a claim above its insurance limits.

Assessments by various tax authorities may be materially different than we have provided for and we may experience significant volatility in our annual and quarterly effective tax rate.

As a matter of course, the Company is regularly audited by federal, state, and foreign tax authorities. From time to time, these audits result in proposed assessments. While the Company believes that it has adequately provided for any such assessments, future settlements may be materially different than we have provided.

In recent years, as described more fully in Note 9, the Company has recorded a valuation allowance against all net domestic deferred tax assets. Until such time as the Company s domestic profitability is restored and considered by management to be sustainable for the foreseeable future, the Company will not record the income tax benefit or expense for domestic pre-tax losses and income respectively, and as such may experience significant volatility in its effective tax rate.

We have a significant amount of debt.

The Company had a $277,500 revolving credit facility of which $158,600 was outstanding at December 31, 2006 which was subsequently paid off and retired during the first quarter of 2007. See Note 21 for a discussion on the repayment of the credit facility. If the Company enters into a new credit facility and is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on the credit facility, including from cash and cash equivalents on hand, we will be in default under the terms of the loan agreements and indentures under which we have outstanding debt securities.

Even if we are able to meet our debt service obligations, the amount of debt we have could adversely affect us in a number of ways, including:

limiting our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements, or other purposes;

(dollars in thousands, except share data)

limiting our flexibility in planning for, or reacting to, changes in our business;

placing us at a competitive disadvantage relative to our competitors who have lower levels of debt;

making us more vulnerable to a downturn in our business or the economy generally; and

requiring us to use a substantial portion of our cash to pay principal and interest on our debt, instead of contributing those funds to other purposes such as working capital and capital expenditures.

International unrest or foreign currency fluctuations could adversely effect our results.

Our international revenues, which include revenues from our non-U.S. subsidiaries and export sales from the U.S., represented 59% of our product revenues in 2006 and 2005. With the sale of the Bioproducts and Biopharma businesses, we expect that international revenues will account for an even larger percentage of our revenues for the foreseeable future.

There are a number of risks arising from our international business, including:

foreign currencies we receive for sales outside the U.S. could be subject to unfavorable exchange rates with the U.S. dollar and reduce the amount of revenue that we recognize;

the possibility that unfriendly nations or groups could boycott our products;

general economic and political conditions in the markets in which we operate;

potential increased costs associated with overlapping tax structures;

more limited protection for intellectual property rights in some countries;

unexpected changes in regulatory requirements;

the difficulties of compliance with a wide variety of foreign laws and regulations;

longer accounts receivable cycles in certain foreign countries; and

import and export licensing requirements.

A significant portion of our business is conducted in currencies other than the U.S. dollar, which is our reporting currency. We recognize foreign currency gains or losses arising from our operations in the period incurred. As a result, currency fluctuations between the U.S. dollar and the currencies in which we do business have caused and will continue to cause foreign currency transaction gains and losses. We cannot predict the effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures, and the potential volatility of currency exchange rates. We engage in limited foreign exchange hedging transactions to manage our foreign currency exposure, but our strategies are short-term in nature and may not adequately protect our operating results from the full effects of exchange rate fluctuations.

The market price of our stock could be volatile.

The market price of our common stock has been subject to volatility and, in the future, the market price of our common stock may fluctuate substantially due to a variety of factors, including:

quarterly fluctuations in our operating income and earnings per share results;

technological innovations or new product introductions by us or our competitors;

economic conditions;

disputes concerning patents or proprietary rights;

changes in earnings estimates and market growth rate projections by market research analysts;

sales of common stock by existing holders;

(dollars in thousands, except share data)

loss of key personnel;

securities class actions or other litigation; and

the Company s ability to retain financing in order to pay special dividends.

The market price for our common stock may also be effected by our ability to meet analysts expectations. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies.

Incidents related to hazardous materials could adversely affect our business.

Portions of our operations require the controlled use of hazardous materials. Although we are diligent in designing and implementing safety procedures to comply with the standards prescribed by federal, state, and local regulations, the risk of accidental contamination of property or injury to individuals from these materials cannot be completely eliminated. In the event of such an incident, we could be liable for any damages that result, which could adversely effect our business.

Additionally, any incident could partially or completely shut down our research and manufacturing facilities and operations.

We generate waste that must be transported to approved storage, treatment and disposal facilities. The transportation and disposal of such waste are required to meet applicable state and federal statutes and regulations. The storage, treatment and disposal of such waste potentially exposes us to environmental liability if, in the future, such transportation and disposal are deemed to have violated such statues and/or regulations or if the storage, treatment and disposal facilities are inadequate and are proved to have damaged the environment.

The Company is also party to several environmental remediation investigations and cleanups and, along with other companies, has been named a potential responsible party for certain waste disposal sites. The Company has also retained the liabilities with respect to certain pre-closing environmental matters associated with the sale of the Rutherford Chemicals business.

The possibility we will be unable to protect our technologies could effect our ability to compete.

Our success depends to a significant degree upon our ability to develop proprietary products and technologies. However, we cannot be assured that patents will be granted on any of our patent applications. We also cannot be assured that the scope of any of our issued patents will be sufficiently broad to offer meaningful protection. We only have patents issued in selected countries. Therefore, third parties can make, use, and sell products covered by our patents in any country in which we do not have patent protection. In addition, our issued patents or patents we license could be successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier. We provide our customers the right to use our products under label licenses that are for research purposes only. These licenses could be contested, and we cannot be assured that we would either be aware of an unauthorized use or be able to enforce the restrictions in a cost-effective manner.

If a third party claimed an intellectual property right to technology we use, we may need to discontinue an important product or product line, alter our products and processes, defend our right to use such technology in court or pay license fees. Although we may, under these circumstances, attempt to obtain a license to such intellectual property, we

may not be able to do so on favorable terms, or at all. Additionally, if our products are found to infringe on a third party s intellectual property, we may be required to pay damages for past infringement, and lose the ability to sell certain products or receive licensing revenues.

(dollars in thousands, except share data)

Compliance with changing regulation of corporate governance and public disclosure may result in additional expense.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, are creating uncertainty for companies. These new or changed laws and standards are subject to multiple interpretations, in many cases due to their lack of specification. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies which could result in higher costs necessitated by revisions to disclosures and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result of the efforts to comply with the evolving laws and regulations increased general and administrative expenses have been experienced and are likely to continue. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002, and the related assessments have required commitment of significant internal and external financial and operational resources.

Employees

At December 31, 2006, the Company had 1,916 employees worldwide (801 of whom were from international operations) compared with 1,837 employees at December 31, 2005 and 1,742 at December 31, 2004.

Cambrex Karlskoga AB and Cambrex Profarmaco Milano S.r.l. production, administration, scientific and technical employees are represented by various local and national unions. The Company believes its labor relations are satisfactory.

Seasonality

The Company experiences some seasonality primarily due to planned plant shutdowns by the Company and certain customers in the third quarter. Operating results for any quarter, however, are not necessarily indicative of results for any future period. In particular, as a result of various factors such as acquisitions, plant shutdowns, and the timing of large contract revenue streams, the Company believes that period-to-period comparisons of its operating results should not be relied upon as an indication of future performance.

Export and International Sales

The Company exports numerous products to various areas, principally Western Europe, Asia and Canada. Export sales from the Company s domestic operations in 2006, 2005 and 2004 amounted to $43,872, $47,115 and $29,945, respectively. Sales from international operations were $221,769 in 2006, $197,511 in 2005, and $196,017 in 2004. Refer to Note 17 to the Cambrex Corporation and Subsidiaries Consolidated Financial Statements.

Available Information

This annual report on Form 10-K, the Company s quarterly reports on Form 10-Q, the Company s current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are made available free of charge on the Company s Internet website www.cambrex.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The most recent certifications by the Company s Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to this Annual report on Form 10-K. Last year the Company filed with the New York Stock Exchange the Annual Chief Executive Officer Certification as required by Section 303A.12.(a) of the New York Stock Exchange Listed Company Manual.

Reports filed by the Company with the SEC may be read and copied at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

The following corporate governance documents are available free of charge on the Company s website: the charters of our Audit, Regulatory Affairs, Compensation and Governance Committees, our Corporate Governance

(dollars in thousands, except share data)

Guidelines and our Code of Business Conduct and Ethics. These corporate governance documents are also available in print to any stockholder requesting a copy from our corporate secretary at our principal executive offices. Information contained on our website is not part of this report. We will also post on our website any amendments to or waivers of our Code of Business Conduct and Ethics that relate to our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer.

Item 1B ***Unresolved Staff Comments***

None.

Item 2 ***Properties.***

Set forth below is information relating to the Company s manufacturing facilities as of December 31, 2006:

Location	Acreage	Operating Subsidiary	Product Lines Manufactured
Charles City, IA	57 acres	Cambrex Charles City, Inc.	Active Pharmaceutical Ingredients, Pharmaceutical Intermediates, Imaging Chemicals, Animal Health Products and Fine Custom Chemicals
Karlskoga, Sweden	42 acres	Cambrex Karlskoga AB	Active Pharmaceutical Ingredients, Pharmaceutical Intermediates, Imaging Chemicals and Fine Custom Chemicals
Paullo (Milan), Italy	13 acres	Cambrex Profarmaco Milano S.r.l.	Active Pharmaceutical Ingredients
Walkersville, MD*	116 acres	Cambrex Bio Science Walkersville, Inc.	Cells and Media and Endotoxin Detection
Verviers, Belgium*	9 acres	Cambrex Bio Science Verviers Sprl	Cells and Media
Rockland, ME*	93 acres	Cambrex Bio Science Rockland, Inc.	Electrophoresis and Chromatography
Copenhagen, Denmark*	Leased	Cambrex Bio Science Copenhagen ApS	Electrophoresis and Chromatography
Baltimore, MD *	Leased	Cambrex Bio Science Baltimore, Inc.	Contract Biopharmaceutical Services
Hopkinton, MA*	Leased	Cambrex Bio Science Hopkinton, Inc.	Contract Biopharmaceutical Services
Saint-Beauzire, France*	Leased	Cambrex Bio Science Clermont Ferrand SAS	Microbial and GMO Detection Kits and BioAssay Products
Gaithersburg, MD*	Leased	Cambrex Bio Science Walkersville, Inc.	Poietics[tm]
Salisbury, MD*	Leased	Cambrex Bio Science Walkersville, Inc.	Endotoxin Detection

The Company also leases 42,000 square feet in North Brunswick, New Jersey for its Center of Technical Excellence, which has a 10 year term ending March 27, 2010. In addition, the Company owns a six acre site and buildings in North Haven, CT, and a three acre site in Carlstadt, New Jersey. The Company believes its facilities to be in good condition, well-maintained and adequate for its current needs.

Most of the Company s products and services are provided from multi-purpose facilities. Each product has a unique requirement for equipment, and occupies such equipment for varying amounts of time. It is generally possible, with proper lead time and customer and regulatory approval (if required), to transfer the manufacturing of a particular product to another facility should capacity constraints dictate.

*These Bioproducts and Biopharma segment sites were sold on February 6, 2007. See Note 21 for more information regarding the sale of these businesses.

(dollars in thousands, except share data)

Item 3 ***Legal Proceedings***

See Environmental and Safety Regulations and Proceedings under Item 1 and Note 19 to the Cambrex Corporation and Subsidiaries Consolidated Financial Statements with respect to various proceedings involving the Company in connection with environmental matters. The Company is party to a number of other proceedings also discussed in Note 19.

Item 4 ***Submission of Matters to a Vote of Security Holders***

None

(dollars in thousands, except share data)

PART II

Item 5 ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company s common stock, $.10 par value is listed on the New York Stock Exchange (NYSE) under the symbol CBM. The following table sets forth the closing high and low sales price of the common stock as reported on the NYSE:

2006	**High**	**Low**
First Quarter	$ 22.11	$ 18.52
Second Quarter	21.62	18.89
Third Quarter	22.76	19.78
Fourth Quarter	24.22	20.38

2005	**High**	**Low**
First Quarter	$ 26.22	$ 20.70
Second Quarter	21.20	17.51
Third Quarter	20.96	18.46
Fourth Quarter	19.41	16.88

As of February 20, 2007, the Company estimates that there were approximately 7,192 beneficial holders of the outstanding common stock of the Company.

The quarterly dividend on common stock was $0.03 for 2006 and 2005.

2006 Equity Compensation Table

The following table provides information as of December 31, 2006 with respect to shares of common stock that may be issued under the Company s existing equity compensation plans.

	Column (a)	**Column (b)**	**Column (c)**
	Number of securities to be issued upon exercise of	**Weighted average exercise price of**	**Number of securities remaining for future issuance under equity compensation plans (excluding securities reflected**

Plan category	outstanding options, warrants and rights		outstanding options, warrants and rights	in column (a))
Equity compensation plans approved by security holders	2,418,618	$	28.12	507,385
Equity compensation plans not approved by security holders	344,775	$	30.82	28,209
Total	2,763,393	$	28.46	535,594

(dollars in thousands, except share data)

Comparison of Five-Year Cumulative Total Returns

The following graph compares the Company s cumulative total stockholder return for a five-year period, with a performance indicator of the overall stock market, the S&P 500 Index, and the S&P 1500 Pharmaceutical and Biotechnology Index which the Company believes more closely reflects its current businesses. Prices are as of December 31 of the year indicated.

The Company s commercial activities are focused on manufacturing and marketing to customers concentrated in the Life Sciences, including pharmaceutical chemicals and intermediates, and products in the Biosciences Industry. Although the Company s products are diverse, making it difficult to select a comparative peer group, the Company believes that the S&P 1500 Pharmaceutical and Biotechnology Index is a good comparison group for the commercial activities on which it currently focuses. The S&P 1500 Pharmaceutical and Biotechnology Index comprises 46 companies as of December 31, 2006.

(dollars in thousands, except share data)

Item 6 ***Selected Financial Data***

The following selected consolidated financial data of the Company for each of the years in the five year period ended December 31, 2006 are derived from the audited financial statements including all adjustments necessary for discontinued operations presentation. The consolidated financial statements of the Company as of December 31, 2006 and December 31, 2005 and for each of the years in the three year period ended December 31, 2006 and the report of independent registered public accounting firm thereon are included elsewhere in this annual report. On November 10, 2003, the Company completed the sale of the Rutherford Chemicals business. On October 27, 2006, the Company completed the sale of two businesses within the Human Health segment (See Note 20 to the consolidated financial statements). As a result, the Rutherford Chemicals business and the results for the two businesses sold in 2006 are being reported as discontinued operations for all periods presented. The data presented below should be read in conjunction with the financial statements of the Company and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	Years Ended December 31,				
	2006(1)	**2005(2)**	**2004(3)**	**2003(4)**	**2002(5)**
INCOME DATA:					
Gross sales	$ 452,255	$ 414,761	$ 395,906	$ 366,891	$ 362,480
Net revenues	455,474	418,470	401,128	372,732	367,814
Gross profit	171,349	160,125	164,086	155,559	172,437
Selling, general and administrative	117,312	103,258	97,774	92,005	83,573
Research and development	21,190	21,469	18,759	16,247	14,966
Impairment and other charges		82,383	48,720	11,342	4,238
Operating profit/(loss)	32,847	(46,985)	(1,167)	35,965	69,660
Interest expense, net	13,917	9,786	9,339	10,223	10,145
Other expense, net	1,454	47	112	112	8,181
Income/(loss) before income taxes	17,476	(56,818)	(10,618)	25,630	51,334
Provision for income taxes	18,721	26,413	14,613	26,029	13,226
(Loss)/income from continuing operations	(1,245)	(83,231)	(25,231)	(399)	38,108
Loss from discontinued operations, net of tax	(28,627)	(27,227)	(1,639)	(53,664)	(4,699)
(Loss)/income before cumulative effect of a change in accounting principle	(29,872)	(110,458)	(26,870)	(54,063)	33,409
Cumulative effect of a change in accounting principle	(228)				
Net (loss)/income	(30,100)	(110,458)	(26,870)	(54,063)	33,409
EARNINGS PER SHARE DATA:					
(Loss)/earnings per common share (basic):					
(Loss)/income from continuing operations	$ (0.05)	$ (3.15)	$ (0.97)	$ (0.02)	$ 1.47
Loss from discontinued operations, net of tax	$ (1.06)	$ (1.03)	$ (0.06)	$ (2.08)	$ (0.18)
Cumulative effect of a change in accounting principle	$ (0.01)	$	$	$	$
Net (loss)/income	$ (1.12)	$ (4.18)	$ (1.03)	$ (2.10)	$ 1.29

(Loss)/earnings per common share (diluted):					
(Loss)/income from continuing operations	$ (0.05)	$ (3.15)	$ (0.97)	$ (0.02)	$ 1.44
Loss from discontinued operations, net of tax	$ (1.06)	$ (1.03)	$ (0.06)	$ (2.08)	$ (0.18)
Cumulative effect of a change in accounting principle	$ (0.01)	$	$	$	$
Net (loss)/income	$ (1.12)	$ (4.18)	$ (1.03)	$ (2.10)	$ 1.26
Weighted average shares outstanding:					
Basic	26,816	26,456	26,094	25,775	25,954
Diluted	26,816	26,456	26,094	25,775	26,520

(dollars in thousands, except share data)

	Years Ended December 31,				
	2006(1)	2005(2)	2004(3)	2003(4)	2002(5)
DIVIDENDS PER COMMON SHARE	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.12
BALANCE SHEET DATA: (at end of period)					
Working capital	$ 117,616	$ 139,207	$ 182,915	$ 138,458	$ 154,324
Total assets	606,376	612,472	791,985	778,503	835,283
Long-term obligations	162,371	186,819	226,187	212,369	265,945
Total stockholders equity	246,646	243,251	391,316	396,630	410,954

(1) Loss from continuing operations include pre-tax charges of $8,607 within administrative expenses for the costs related to the evaluation of strategic alternatives to enhance shareholder value, $1,791 within research and development expenses due to the acquisition of Cutanogen, $1,475 for the write-down of an investment in equity securities within other expense, $5,272 within interest expense due to the pre-payment of a portion of the Company s long-term debt and tax expense of $1,696 related to prior years returns included in the provision for income taxes. Discontinued operations include the loss on sale of the Cork and Landen businesses of $23,244, $200 related to a Rutherford Chemicals environmental reserve and a goodwill impairment charge of $2,092.

(2) Loss from continuing operations include pre-tax charges for goodwill impairment of $67,950 and long-lived asset impairment charge of $14,433 in the Biopharma segment. Results also include pre-tax charges for executive severance of $4,223 and an increase in an environmental reserve of $1,300 recorded in operating expenses, and a tax benefit due to a favorable Swedish court decision of $3,329 and an increase in valuation allowances against domestic deferred tax assets totaling $16,926 within the provision for income taxes. Discontinued operations include goodwill impairment of $8,435 and long-lived asset impairment charge of $16,359 and a tax benefit related to the long-lived asset impairment of $1,673.

(3) Loss from continuing operations include a pre-tax charge of $48,720 for goodwill impairment related to the Biopharma segment.

(4) Loss from continuing operations include a pre-tax charge of $11,342 recorded in operating expenses for the settlement of certain class action lawsuits involving Mylan Laboratories and the establishment of valuation allowances against net domestic deferred tax assets totaling $21,487 within the provision for income taxes.

(5) Income from continuing operations include a pre-tax charge of $4,238 for asset impairment and severance related to the closure of a small manufacturing facility and a $7,344 pre-tax charge for investment impairments recorded in other expense.

(dollars in thousands, except share data)

Item 7 ***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.

As part of the process of evaluating strategic alternatives to enhance shareholder value, on October 27, 2006, the sale of the Cork and Landen businesses, within the Human Health segment, was completed and accordingly, these businesses are being reported as discontinued operations in all periods presented.

As part of the process of evaluating strategic alternatives to enhance shareholder value, on October 23, 2006, the Company entered into a definitive stock purchase agreement with Lonza Group AG for the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) for total cash consideration of $460,000. This sale was completed on February 6, 2007. The results of these two segments are reported as continuing operations in all periods presented. The Company will begin reporting these segments as discontinued operations during the first quarter of 2007.

With the divestiture of the Bioproducts and Biopharma segments, Cambrex will focus its efforts towards expanding its Human Health business. Continued expansion of the custom development pipeline, increased sales of products based on proprietary technology, and higher demand for generic APIs contributed to the 5.9% sales increase in this segment. With one of the broadest portfolios of products and services in the API market, Human Health remains very profitable and represents a solid platform for future growth.

The following significant events occurred during 2006 which affected results from continuing operations:

A charge of approximately $8,600 recorded within administrative expenses for the costs related to the evaluation of strategic alternatives to enhance shareholder value.

A $5,272 charge recorded within interest expense due to the pre-payment of a portion of the Company s long-term debt.

A $1,791 charge recorded within research and development expenses due to the acquisition of Cutanogen.

A $1,475 charge for the write-down of an investment in equity securities.

Sales in 2006 increased 9.0% to $452,255, including a 0.4% favorable impact resulting from foreign currency, from $414,761 in 2005 due to higher sales in all segments.

Gross margins in 2006 decreased to 37.9% from 38.6% in 2005 due to lower Human Health and Bioproducts margins resulting from increased production costs in the Human Health and Bioproducts segments and lower pricing within the Human Health segment, partially offset by higher margins in the Biopharma segment due to higher revenues. Foreign currency unfavorably impacted gross margin by 0.3% in 2006.

A pharmaceutical company with which a long-term sales contract is in effect that is scheduled to expire at the end of 2008, accounted for 12.3% of Human Health sales. The Company is currently in negotiations to extend this contract to 2013 which, if the Company elects to do so, will result in significantly lower profitability for sales under this arrangement in 2007 and 2008. There is no guarantee that this contract will be renewed.

The Company recorded tax expense of $18,721 in 2006 compared to $26,413 in 2005. The tax provisions in 2006 and 2005 are primarily affected by the non-recognition of tax benefits in the U.S. and certain foreign jurisdictions where losses are incurred and the Company records valuation allowances against the benefits, the recording of tax expense for profitable non-U.S. entities and agreed income tax audit adjustments in the U.S. and non U.S. entities.

(dollars in thousands, except share data)

The Company reported a loss from continuing operations of $1,245, or $0.05 per diluted share in 2006, compared to $83,231, or $3.15 per diluted share, in 2005.

Critical Accounting Policies

The Company s critical accounting policies are those that require the most subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company bases its estimates on historical experience and on other various assumptions that are deemed reasonable by management under each applicable circumstance. Actual results or amounts could differ from estimates and the differences could have a material impact on the consolidated financial statements. A discussion of the Company s critical accounting policies, the underlying judgments and uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions, is as follows:

Revenue Recognition

Revenues in the Bioproducts and Human Health segments are generally recognized when title to products and risk of loss are transferred to customers. Certain contracts in the Bioproducts and Biopharma segments are based on time and materials and revenue for these contracts is recognized as services are performed. Additional conditions for recognition of revenue are that collection of sales proceeds is reasonably assured and the Company has no further performance obligations.

The Company has certain contracts that contain multiple deliverables, principally in the Biopharma and Bioproducts segments. These deliverables often include process development services and commercial production and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units.

For contracts that contain milestone-based payments, the Company recognizes revenue using the proportional performance method based on the percentage of costs incurred relative to the total costs estimated to be incurred to complete the contract. Revenue recognition computed under this methodology is compared to the amount of non-refundable cash payments received or contractually receivable at the reporting date and the lesser of the two amounts is recognized as revenue at each reporting date.

The proportional performance methodology applied by the Company, utilizes an input based measure, specifically labor costs, to determine proportional performance because the Company believes the use of an input measure is a reasonable surrogate of proportional performance compared to an output based measure, such as milestones.

Amounts billed in advance are recorded as deferred revenue on the balance sheet. Since payments received are non-refundable, the termination of a contract by a customer prior to its completion could result in an immediate recognition of deferred revenue relating to payments already received not previously recognized as revenue.

Sales terms to certain customers include remittance of discounts if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and estimated returns at the time of sale based on the terms of agreements with customers and historical experience and recognizes revenue net of these estimated costs which are classified as allowances and rebates.

Asset Valuations and Review for Potential Impairments

The review of long-lived assets, principally fixed assets and other amortizable intangibles, requires the Company to estimate the undiscounted future cash flows generated from these assets whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If undiscounted cash flows are less than carrying value, the long-lived assets are written down to fair value.

(dollars in thousands, except share data)

The review of the carrying value of goodwill and indefinite lived intangibles is done annually or whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable utilizing a two-step process. In the first step, the fair value of the reporting units is determined using a discounted cash flow model and compared to the carrying value. If such analysis indicates that impairment may exist, the Company then estimates the fair value of the other assets and liabilities utilizing appraisals and discounted cash flow analyses to calculate an impairment charge.

The determination of fair value is judgmental in nature and involves the use of significant estimates and assumptions, including projected future cash flows primarily based on operating plans, discount rates, determination of appropriate market comparables and perpetual growth rates. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge.

Environmental and Litigation Contingencies

The Company periodically assesses the potential liabilities related to any lawsuits or claims brought against us. See Note 19 in the accompanying financial statements for a discussion of our current environmental and litigation matters, reserves recorded and our position with respect to any related uncertainties. While it is typically very difficult to determine the timing and ultimate outcome of these actions, the Company uses its best judgment to determine if it is probable that the Company will incur an expense related to a settlement for such matters and whether a reasonable estimation of such probable loss, if any, can be made. If probable and estimable, the Company accrues for the costs of clean-up, settlements and legal fees. If the aggregate amount of the liability and the timing of the payment is fixed or reasonably determinable, the Company discounts the amount to reflect the time value of money. Given the inherent uncertainty related to the eventual outcome of litigation and environmental matters, it is possible that all or some of these matters may be resolved for amounts materially different from any provisions that the Company may have made with respect to their resolution.

Income Taxes

The Company applies an asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The recoverability of deferred tax assets is dependent upon the Company s assessment that it is more likely than not that sufficient future taxable income will be generated in the relevant tax jurisdiction to utilize the deferred tax asset. In the event the Company determines that future taxable income will not be sufficient to utilize the deferred tax asset, a valuation allowance is recorded. The Company s valuation allowances primarily relate to net operating loss carryforwards, foreign tax credits, and alternative minimum tax credits in the U.S., where profitability is uncertain and net operating loss carryforwards in certain state and foreign jurisdictions with little or no history of generating taxable income or where future profitability is uncertain.

Employee Benefit Plans

The Company provides a range of benefits to employees and retired employees, including pensions, post-retirement, post employment and health care benefits. The Company records annual amounts relating to these plans based on calculations, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates, and health care cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of the modifications is generally recorded and amortized over future periods. The Company believes that the assumptions utilized for recording obligations under its plans are reasonable.

The discount rate used to measure pension liabilities and costs is selected by projecting cash flows associated with plan obligations which were matched to a yield curve of high quality bonds. The Company then selected the single rate that produces the same present value as if each cash flow were discounted by the corresponding spot rate on the yield curve.

(dollars in thousands, except share data)

Results of Operations

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 years ended December 31, 2006, 2005 and 2004, as well as the gross profit by product segment for 2006 and 2005.

	Years Ended December 31,		
	2006	**2005**	**2004**
Gross Sales			
Bioproducts	$ 163,119	$ 149,498	$ 136,108
Biopharma	52,477	41,698	43,270
Human Health	236,659	223,565	216,528
Total Gross Sales	$ 452,255	$ 414,761	$ 395,906
Total Net Revenues	$ 455,474	$ 418,470	$ 401,128
Total Gross Profit	$ 171,349	$ 160,125	$ 164,086
Gross Sales Distribution			
Bioproducts	36.1%	36.0%	34.4%
Biopharma	11.6	10.1	10.9
Human Health	52.3	53.9	54.7
Total Gross Sales Distribution	100.0%	100.0%	100.0%

2006-2005 Gross Sales & Gross Profit by Product Segment

	2006			2005		
	Gross Sales	**Gross Profit**	**Gross Profit %**	**Gross Sales**	**Gross Profit**	**Gross Profit %**
Bioproducts	$ 163,119	$ 84,350	51.7%	$ 149,498	$ 77,908	52.1%
Biopharma	52,477	3,236	6.2	41,698	(3,811)	(9.1)
Human Health	236,659	83,763	35.4	223,565	86,028	38.5
Total	$ 452,255	$ 171,349	37.9%	$ 414,761	$ 160,125	38.6%

2006 Compared to 2005

Gross sales for 2006 increased 9.0% to $452,255 from $414,761 in 2005. Sales in all segments increased compared to 2005. Gross sales were favorably impacted 0.4% due to exchange rates reflecting weakness in the U.S. dollar

primarily versus the Euro and Swedish Krona.

Gross profit in 2006 was $171,349 compared to $160,125 in 2005. Gross margins in 2006 decreased to 37.9% from 38.6% in 2005. The reduced gross margins percentage reflects lower margins in the Human Health and Bioproducts segments partially offset by higher margins in the Biopharma segment.

(dollars in thousands, except share data)

The following table shows gross sales by geographic area for the years ended December 31, 2006 and 2005:

	2006	2005
North America	$ 222,058	$ 196,970
Europe	202,261	191,155
Asia	17,963	17,958
Other	9,973	8,678
Total	$ 452,255	$ 414,761

The Bioproducts Segment gross sales in 2006 of $163,119 were $13,621 or 9.1% above 2005. Bioproducts sales were favorably impacted 0.4% due to exchange rates reflecting a weaker U.S. dollar. The increased sales, before the impact of foreign currency, are primarily due to higher sales in both the research products and therapeutics applications categories including cell therapy, rapid microbial detection, cell biology, and molecular biology due to stronger demand, higher pricing and the addition of new customers.

Bioproducts gross margins decreased to 51.7% in 2006 from 52.1% in 2005. The reduced margins are due primarily to increased production costs partially offset by higher sales volume, increased pricing in most product categories and a favorable impact due to exchange rates.

The Biopharma Segment gross sales in 2006 of $52,477 were $10,779 or 25.9% above 2005 reflecting higher suite and process development revenues partially offset by lower labor fees and reimbursed material revenue. Foreign currency had no impact on Biopharma sales.

Biopharma gross margins increased to 6.2% in 2006 from (9.1%) in 2005. The improved margins are due primarily to higher revenues partially offset by higher production costs.

The Human Health Segment gross sales in 2006 of $236,659 increased $13,094 or 5.9% above 2005. Human Health sales were favorably impacted 0.5% due to exchange rates reflecting a weaker U.S. dollar. The increase in sales is due mainly to stronger demand for certain central nervous system and cardiovascular APIs, nicotine polacrilex resin (used in smoking cessation products) and higher sales of a diuretic API. These sales were partially offset by lower sales of a gastrointestinal API, feed additives and a pharmaceutical intermediate used for end-stage kidney treatment. Increasing pricing pressures on APIs also negatively impacted sales.

Human Health gross margins decreased to 35.4% in 2006 from 38.5% in 2005. The reduced margins are due primarily to higher production costs, lower pricing on certain APIs, and unfavorable impact of foreign currency partially offset by increased sales volume and favorable product mix.

Selling, general and administrative (SG&A) expenses of $117,312 or 25.9% of gross sales in 2006 increased from $103,258 or 24.9% in 2005. Administrative expenses increased primarily due to costs associated with the strategic alternative process, higher legal and audit fees, higher valuation of stock appreciation rights and the expensing of stock options partially offset by lower personnel costs.

Research and development expenses of $21,190 were 4.7% of gross sales in 2006, compared to $21,469 or 5.2% of gross sales in 2005. The decrease primarily reflects a reduction of Corporate personnel and lower labor costs partially

offset by Cutanogen in process research and development costs of $1,791.

Operating profit in 2006 was $32,847 compared to a loss of $46,985 in 2005. The 2006 results include strategic alternative costs of approximately $8,600 and Cutanogen in process research and development costs of $1,791. The 2005 results reflect impairment charges of $82,383, a charge for executive severance of $4,223 and a $1,300 charge for an environmental remediation reserve at a former site. Excluding these charges, operating profit would have increased from 2005 by $2,324 but decreased 0.3% as a percentage of sales resulting from lower gross margins in the Human Health and Bioproducts segments.

Net interest expense of $13,917 in 2006 increased $4,131 from 2005. The Company incurred costs of $5,272 associated with the prepayment of debt in 2006. Excluding this charge, net interest expense would have decreased

(dollars in thousands, except share data)

$1,141 primarily reflecting lower average debt partially offset by higher interest rates. The average interest rate was 5.8% and 5.5% in 2006 and 2005, respectively.

The Company recorded tax expense of $18,721 in 2006 compared to $26,413 in 2005. The tax expense for 2006 includes a $12,147 valuation allowance to offset benefits generated from U.S. tax losses and tax credits and losses in certain non-U.S. jurisdictions. These valuation allowances result from the Company s recent history of domestic and certain foreign losses and its short-term projections for losses from continuing operations in the relative jurisdictions. Since 2003, the Company has maintained a full valuation allowance on the tax benefits arising from domestic pre-tax losses.

The Company recorded tax expense of $26,413 in 2005. The tax expense for 2005 includes a $16,926 valuation allowance to write down the carrying value of certain U.S. tax assets that had been previously preserved by tax strategies. This valuation allowance results from the Company s recent history of domestic losses and its short-term projections for continued domestic losses.

The Company will continue to record a full valuation allowance on its domestic net deferred tax assets and indefinite lived intangibles until an appropriate level of domestic 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 the domestic net deferred assets would be realized. If the Company continues to report pre-tax losses in the United States, income tax benefits associated with those losses will not be recognized and, therefore, those losses would not be reduced by such income tax benefits. The carryforward periods for foreign tax credits, research and experimentation tax credits, net operating losses, and the federal alternative minimum tax credits are 10 years, 20 years, 20 years and an indefinite period, respectively. As such, improvements in domestic 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.

Loss from continuing operations in 2006 was $1,245, or $0.05 per diluted share, versus $83,231, or $3.15 per diluted share in 2005.

2005 Compared to 2004

Gross sales for 2005 increased 4.8% to $414,761 from $395,906 in 2004. Sales in the Bioproducts and Human Health segments increased compared to 2004, more than offsetting the decrease in the Biopharma segment. Gross sales were unfavorably impacted 0.5% due to exchange rates reflecting strength in the U.S. dollar primarily versus the Euro and Swedish Krona.

Gross profit in 2005 was $160,125 compared to $164,086 in 2004. Gross margin in 2005 decreased to 38.6% from 41.4% in 2004, reflecting lower margins in all segments.

The following table shows gross sales by geographic area for the years ended December 31, 2005 and 2004:

	2005	2004
North America	$ 196,970	$ 205,749
Europe	191,155	164,228
Asia	17,958	17,493
Other	8,678	8,436
Total	$ 414,761	$ 395,906

The Bioproducts Segment gross sales in 2005 of $149,498 were $13,390 or 9.8% above 2004. Bioproducts sales were unfavorably impacted 0.1% due to exchange rates reflecting a stronger U.S. dollar. The increased sales, before the impact of foreign currency, are primarily due to higher sales in both the research products and therapeutics applications categories including cell biology, cell therapy, rapid microbial detection, testing services, serum, media and assays due to stronger demand, higher pricing and the addition of new customers.

(dollars in thousands, except share data)

Bioproducts gross margins decreased to 52.1% in 2005 from 55.1% in 2004 due primarily to increased production labor to support current and future activity levels and higher utilities partially offset by higher sales volume and increased pricing in most product categories.

The Biopharma Segment gross sales in 2005 of $41,698 were $1,572 or 3.6% below 2004 reflecting lower suite and process development revenues partially offset by higher reimbursed materials and labor fees. Foreign currency had no impact on Biopharma sales.

Biopharma gross margins decreased to (9.1%) in 2005 from 11.3% in 2004 due primarily to a higher percentage of revenues from reimbursed materials which have virtually no profit margin, lower revenues and higher production costs.

The Human Health Segment gross sales in 2005 of $223,565 increased $7,037 or 3.2% above 2004. Human Health sales were unfavorably impacted 0.8% due to exchange rates reflecting a stronger U.S. dollar. The increase in sales is due mainly to stronger demand of a gastrointestinal API, nicotine polacrilex resin (used in smoking cessation products), a pharmaceutical intermediate used for end-stage kidney treatment and higher sales of a diuretic API. These sales were partially offset by lower sales of certain central nervous system and cardiovascular APIs due to increasing competition resulting in lower volumes sold and lower sales of a gastrointestinal API and crop additive.

Human Health gross margins decreased to 38.5% in 2005 from 38.9% in 2004 due primarily to higher production costs, lower pricing on certain APIs, and unfavorable impact of foreign currency partially offset by favorable product mix and increased sales volume.

Selling, general and administrative expenses of $103,258 or 24.9% of gross sales in 2005 increased from $97,774 or 24.7% in 2004. Sales and marketing expenses increased primarily due to additional sales and marketing personnel within the Bioproducts segment. Higher administrative costs are primarily due to executive severance, increased personnel and higher environmental costs related to a former site, partially offset by lower valuation of stock appreciation rights and legal expenses.

Research and development expenses of $21,469 were 5.2% of gross sales in 2005, compared to $18,759 or 4.7% of gross sales in 2004. The increase primarily reflects investments in new product technologies for pathogen testing and higher custom development costs.

During the fourth quarter of 2005 the Company performed an impairment assessment of long-lived assets, which includes amortizable intangible assets as well as property, plant and equipment. As a result of lower long- term profitability projections, the Company determined that the sum of the undiscounted expected future operating cash flows were less than the carrying value of the related assets. The Company recorded an impairment charge for long-lived assets in the fourth quarter of $14,433 in the Biopharma segment to write-down these assets to their fair value as determined primarily based on appraisals. During the performance of the annual goodwill impairment test in the fourth quarter of 2005, the Company determined that the goodwill of two reporting units was impaired utilizing the steps as outlined in Critical Accounting Policies, Asset Valuations and Review for Potential Impairments. The goodwill impairment charge recorded in the fourth quarter of 2005 was $67,950. The goodwill impairment charge is primarily due to lower long term profitability projections due to current market factors. In the third quarter of 2004, the Company recorded an impairment charge of $48,720 to reduce the carrying value of goodwill in the Biopharma segment.

Operating loss in 2005 was $46,985 compared to $1,167 in 2004. The results reflect lower gross margins in all segments and higher operating expenses. In addition to the impairment charges, 2005 results include a charge for

executive severance of $4,223 and a $1,300 charge for an environmental remediation reserve at a former site. The 2004 results include the $48,720 charge for the goodwill impairment discussed above and $2,863 of income due to early termination of a Bioproducts customer contract.

Net interest expense of $9,786 in 2005 increased $447 from 2004 mainly due to higher interest income in 2004 reflecting higher cash balances accumulating interest. Average debt balance, year over year, was slightly lower in 2005, while the average interest rate was 5.5% in 2005 and 2004.

(dollars in thousands, except share data)

The Company recorded tax expense of $26,413 in 2005 compared to $14,613 in 2004. The tax expense for 2005 includes a $16,926 valuation allowance to write down the carrying value of certain U.S. tax assets that had been previously preserved by tax strategies. This valuation allowance results from the Company s recent history of domestic losses and its short-term projections for continued domestic losses. Since 2003, the Company has maintained a full valuation allowance on the tax benefits arising from domestic pre-tax losses. The majority of the 2004 tax expense represents taxes on international profits.

The Company will continue to record a full valuation allowance on its domestic net deferred tax assets and indefinite lived intangibles until an appropriate level of domestic 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 the domestic net deferred assets would be realized. If the Company continues to report pre-tax losses in the United States, income tax benefits associated with those losses will not be recognized and, therefore, those losses would not be reduced by such income tax benefits. The carryforward periods for foreign tax credits, research and experimentation tax credits, net operating losses, and the federal alternative minimum tax credits are 10 years, 20 years, 20 years and an indefinite period, respectively. As such, improvements in domestic 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.

Loss from continuing operations in 2005 was $83,231 or $3.15 per diluted share, versus $25,231, or $0.97 per diluted share in 2004.

Liquidity and Capital Resources

During 2006 cash and cash equivalents on hand decreased $11,596 to $33,746. The weaker U.S. dollar favorably impacted the translated cash balances by $3,629. During 2006, the Company generated cash flows from operations totaling $34,720, a decrease of $7,715 versus the same period a year ago. The decrease in cash flows generated from operations in 2006 versus 2005 is due primarily to the timing of tax payments in 2006 compared to 2005.

During 2005, the Company repatriated approximately $92,000 as a dividend from its foreign subsidiaries pursuant to the American Jobs Creation Act of 2004, approximately $36,000 drawn from the Company s European-based credit facility, and the balance from foreign subsidiary cash on hand.

Cash flows used in investing activities in 2006 of $41,254 primarily include capital expenditures of $38,239 and acquired in-process research and development of $1,392. Capital expenditures for 2006 and 2005 primarily consisted of capital improvements to existing facilities and a purification lab and new warehouse at a Human Health facility.

Cash flows used in financing activities in 2006 of $8,691 include a net reduction of debt of $26,678 and dividends paid of $3,210 partially offset by proceeds from stock options exercised of $21,310. In 2005 the Company had a net reduction of debt of $39,210 and paid dividends of $3,176 which was partially offset by proceeds from stock options exercised of $3,906.

In October 2005, the Company entered into a $277,500 five-year Syndicated Senior Revolving Credit Facility (5-Year Agreement), which expires in October 2010.

The 5-Year Agreement allows the Company to choose among various interest rate options and to specify the portion of the borrowing to be covered by specific interest rates. Under the 5-Year Agreement the interest rate options available to the Company are the following: (i) LIBOR plus an applicable margin that ranges from .475% to .85%, (ii) higher of U.S. Prime Rate or Federal Funds Rate plus .5% or (iii) Money Market rate as quoted by the Administrative Agent of the Agreement. The applicable margin is based upon the ratio of consolidated funded

indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) (as defined in the 5-Year Agreement, Leverage Rates). The Company also pays a facility fee between .15% to .275% on the entire credit facility which is based upon the leverage ratio. The 5-Year Agreement is subject to financial covenants

(dollars in thousands, except share data)

requiring the Company to maintain certain levels of interest coverage ratio, leverage ratios and limitations on indebtedness. The Company complied with all covenants in this 5-Year Agreement during 2006.

The 5-Year Agreement is collateralized by dividend and distribution rights associated with a pledge of a portion of stock that the Company owns in a foreign holding company. This foreign holding company owns a majority of the Company s non-U.S. operating subsidiaries.

As of December 31, 2006, there was $158,600 outstanding and $118,900 undrawn under the 5-Year Agreement. Of the undrawn amount, $102,923 was available to be borrowed as of December 31, 2006 due to limits established in the 5-Year Agreement.

The 2006 and 2005 weighted average interest rate for long-term bank debt was 5.8% and 5.5%, respectively.

Contractual Obligations

At December 31, 2006, our contractual obligations with initial or remaining terms in excess of one year were as follows:

	Total	2007	2008	2009	2010	2011+
Long term debt, including capital leases	$ 163,871	$ 1,500	$ 1,674	$ 1,823	$ 158,874	$
Interest on debt	40,485	10,528	10,360	10,315	8,643	639
Operating leases	20,777	4,968	4,392	4,080	2,925	4,412
Purchase obligations	15,779	10,708	1,724	1,349	999	999
Mylan settlement	3,200	1,600	1,600			
Contractual cash obligations	$ 244,112	$ 29,304	$ 19,750	$ 17,567	$ 171,441	$ 6,050

In addition to the contractual obligations listed above, the Company expects to contribute approximately $5,647 in cash to its two U.S. defined-benefit pension plans and $434 in cash to its international pension plans in 2007.

See Notes 10, 11, 18 and 21 for additional information regarding our debt and other commitments.

On October 23, 2006, the Company entered into a definitive stock purchase agreement with Lonza Group AG for the sale of the businesses that comprise the Bioproducts and Biopharma segments (excluding certain liabilities) for total cash consideration of $460,000. The sale was completed on February 6, 2007 and the Company repaid the outstanding debt and retired the 5-Year Agreement. Assuming financing can be arranged under favorable terms at anticipated levels, the Company expects to distribute $13.50 to $14.50 per share as a special dividend to shareholders subsequent to arranging the financing.

Management believes that existing sources of capital, together with cash flows from operations, will be sufficient to meet foreseeable cash flow requirements. A key to our access to liquidity is the maintenance of our long-term credit ratings and ability to meet debt covenants to maintain certain levels of an interest coverage ratio and leverage ratio. The Company met all covenants related to the 5-Year Agreement during 2006. As discussed in Note 21, the Company completed the sale of the businesses that comprise the Bioproducts and Biopharma segments on February 6, 2007 for total consideration of $460,000 and repaid the outstanding debt and retired the 5-Year Agreement.

Our forecasted cash flow from future operations may be adversely affected by various factors including, but not limited to, declines in customer demand, increased competition, the deterioration in general economic and business conditions, as well as other factors. See the Risk Factors section of this document for further explanation of factors that may negatively impact our cash flows. Any change in the current status of these factors could adversely impact the Company s ability to fund operating cash flow requirements.

(dollars in thousands, except share data)

In connection with the sale of the Bioproducts and Biopharma businesses in February 2007, the Company will utilize domestic NOL s and foreign tax credits for which a full valuation allowance was provided for at December 31, 2006. The NOL s and foreign tax credits will be utilized to reduce significantly all the domestic tax on this transaction. Additionally it is anticipated that any U.S. income tax related to the distribution from non-U.S. Bioproducts entities repatriated subsequent to sale of those entities in first quarter 2007 will be offset by foreign tax credits.

Market Risks

In the normal course of business, the Company uses a variety of techniques and instruments, including derivatives, as part of its overall risk management strategy to lower its exposure to market risks arising from adverse changes in interest rates and foreign currency exchange rates.

Currency Risk Management

The Company s primary market risk relates to exposure to foreign currency exchange rate fluctuations on transactions entered into by international operations which are primarily denominated in the U.S. dollar, Euro and Swedish krona. The Company currently uses foreign currency exchange forward contracts to mitigate the effect of short-term foreign exchange rate movements on the Company s operating results. The notional amount of these contracts as of December 31, 2006 was $14,255. Unrealized foreign exchange contract losses do not subject the Company s actual results to risk as gains or losses on these contracts are undertaken to offset gains or losses on the transactions that are hedged.

With respect to the contracts outstanding at December 31, 2006, a 10% fluctuation of the local currency over a one-year period would cause $1,384 pre-tax earnings to be at risk. This is based on the notional amount of the contracts, adjusted for unrealized gains and losses, of $13,841. These calculations do not include the impact of exchange gains or losses on the underlying positions that would offset the gains and losses of the derivative instruments.

Interest Rate Management

As of December 31, 2006, the Company had borrowings of $158,600 that were based on short-term variable interest rates in the 5-Year Agreement.

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. These matters, either individually or in the aggregate, could have a material adverse effect on the Company s financial condition, operating results and cash flows in a future reporting period.

Environmental

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

(dollars in thousands, except share data)

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 $4,862 and $3,353 at December 31, 2006 and December 31, 2005, respectively. The increase in the accrual is primarily due to an increase in the reserve for several of the Company s former operating sites of $1,252, an increase in the reserve at a Company subsidiary with an offsetting receivable recorded in Other Assets of $887 and currency fluctuation of $119, partially offset by payments of $749. 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 upon approval of the sampling plan. During 2006 the Company increased reserves by $235 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. As discussed in Note 20, in October 2006, the Company completed the sale of the Landen facility and the obligation related to the remediation of this site transferred to the new owner with the sale.

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 in 2005 based on the proposed remedial action plan. The Company submitted the results of the investigation and proposed remedial action plan to the NJDEP. In late 2006, the NJDEP requested that an additional investigation be conducted at the site. The Company expects to complete such additional work during the next several months.

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 is 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. The operating companies are among many other PRPs that were listed in the notice. Pursuant to the notice, the PRPs have been asked to perform a

(dollars in thousands, except share data)

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, reserves have been established 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.

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.

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 December 31, 2006, with the remaining $3,200 to be paid over the next two years.

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 are expected to be finalized and payments are expected to be made during the next several months. The balance of the reserves recorded within accrued liabilities related to this matter was $1,582 as of

December 31, 2006.

(dollars in thousands, except share data)

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 Industrial Site Recovery Act was triggered; and the Company has retained the 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 have now settled the Customer arbitration claim for $1,500. 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

(dollars in thousands, except share data)

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 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 in Baltimore (the Baltimore Business). The sellers of the Baltimore Business filed suit against the Company alleging that the Company made

(dollars in thousands, except share data)

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 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. A decision on the Motion for Summary Judgment filed by the Company in 2006 is pending.

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 December 31, 2006.

In addition to the matters identified above, Cambrex s subsidiaries are party to a number of other proceedings.

Impact of Recent Accounting Pronouncements

Stock Based Compensation

The Company adopted FAS 123(R) Share-Based Payment, 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 years ended December 31, 2005 and 2004, 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 year ended December 31, 2006 does not include compensation cost for options granted prior to January 1, 2006 as all options outstanding prior to January 1, 2006 were fully vested as of December 31, 2005. On December 31, 2006, the Company had seven active stock-based employee compensation plans. All stock options granted during 2006 vest 25% per year over four years and have a term of seven years. The Company also had outstanding at December 31, 2006 restricted stock as described below.

Beginning January 1, 2006, the Company began recognizing 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 for the years ended December 31, 2006, 2005 and 2004 were $8.00, $8.56 and $9.68, respectively.

Stock option values were estimated using a 0.55% to 0.56% dividend yield, expected volatility of 36.49% to 38.28% and a risk-free interest rate of 4.42% to 4.96%. 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 3.75 to 4.75 years was utilized based on the simplified method for determining the expected term of stock options in Staff Accounting Bulletin No. 107, Share-Based Payment. Assumptions used in

(dollars in thousands, except share data)

estimating the fair value of stock options granted for the year ended December 31, 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 December 31, 2006, the total compensation cost related to unvested stock option awards granted to employees but not yet recognized was $1,601. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 3.3 years.

The amount of stock-based compensation costs related to stock options recorded for the year ended December 31, 2006 was $448. Diluted earnings per share changed by $0.02 in the year ended December 31, 2006 as a result of adopting FAS 123(R) on January 1, 2006.

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The provisions of FIN 48 will be effective for Cambrex at the beginning of the Company s 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on the consolidated financial statements.

Fair Value Measurements

In September 2006, the FASB issued FASB Statement No. 157 Fair Value Measurements (FAS 157). This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of this statement.

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued FASB Statement No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (FAS 158) which is effective for fiscal years ending after December 15, 2006. FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement does not impact the amounts recognized in the income statement. FAS 158 will also require an employer to measure the funded status of a plan as of the date of the fiscal year end balance sheet. This measurement requirement is effective for fiscal years ending after December 15, 2008.

Based on the Company s funded status of plan obligations disclosed in Note 15, the impact of adopting FAS 158 was a reduction to accumulated other comprehensive income of $7,464 ($7,088 net of tax) as of December 31, 2006, with no impact to the Company s consolidated statements of operations or cash flows. There will not be any affect on the Company s financing agreements as none of the current debt covenants were impacted.

Accounting for Planned Major Maintenance Activities

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1 Accounting for Planned Major Maintenance Activities . This FSP amends certain provisions of APB Opinion No. 28 Interim Financial Reporting . This FSP prohibits the use of the accrue-in-advance method of accounting for planned major

(dollars in thousands, except share data)

maintenance activities in annual and interim reporting periods. This FSP is effective for the first fiscal year beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year. This FSP should be applied retrospectively for all financial statements presented, unless it is impractical to do so. The Company expects the impact of this pronouncement to be immaterial.

Amendment of FSP FAS 123(R)-1

In October 2006, the FASB issued FSP 123(R)-5 Amendment of FSP FAS 123(R)-1 . FSP 123(R)-5 applies to instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or the measurement (due to a change in classification) of those instruments will result if certain conditions are met. This FSP is effective for the first reporting period beginning after October 10, 2006 and should be applied retrospectively to prior periods. Earlier adoption is permitted in periods for which financial statements have not yet been issued. The Company is currently evaluating the impact of this pronouncement.

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 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-K. Any forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations including, but not limited to, global economic trends, pharmaceutical outsourcing trends, competitive pricing or product developments, government legislation and/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 Company s ability to receive regulatory approvals for its products, the outcome of the evaluation of strategic alternatives, the availability of financing on favorable terms in order to fund the portion of the special dividend that is not being funded from proceeds of the sale and whether the Company s estimates set forth in the definitive proxy statement filed January 4, 2007 with respect to its earnings and profits utilized to calculate taxes on the Bio Businesses divestiture in 2007 will be correct, and other factors described under the caption Risk Factors That May Affect Future Results in this Form 10-K. 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.

Item 7a *Quantitative and Qualitative Disclosures about Market Risk*

The information required in this section can be found in the Market Risks section of Item 7 on page 30 of this Form 10-K.

(dollars in thousands, except share data)

37

Item 8 ***Financial Statements and Supplementary Data***

The following consolidated financial statements and selected quarterly financial data of the Company are filed under this item:

The consolidated financial statements and financial statement schedule are filed pursuant to Item 15 of this report.

(dollars in thousands, except share data)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Cambrex Corporation

We have completed integrated audits of Cambrex s 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Cambrex and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 4 and 14 to the consolidated financial statements, in 2006 the Company changed the manner in which it accounts for pension and other postretirement benefit plans and the manner in which it accounts for share-based compensation.

Internal control over financial reporting

Also, in our opinion, management s assessment, included Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that Cambrex Corporation maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating

management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

Florham Park, NJ
March 15, 2007

CAMBREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	December 31, 2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,746	$ 45,342
Trade receivables, less allowances of $2,819 and $2,761 at respective dates	74,012	69,283
Inventories, net	94,601	81,080
Assets of discontinued operations		18,913
Prepaid expenses and other current assets	22,391	14,908
Total current assets	224,750	229,526
Property, plant and equipment, net	227,024	201,784
Goodwill	98,046	94,420
Other intangible assets, net	50,163	51,183
Assets of discontinued operations		29,574
Other assets	6,393	5,985
Total assets	$ 606,376	$ 612,472
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 42,246	$ 33,720
Accrued expense and other current liabilities	64,888	50,368
Liabilities of discontinued operations		6,231
Total current liabilities	107,134	90,319
Long-term debt	162,371	186,819
Deferred tax liabilities	30,219	26,976
Liabilities of discontinued operations		7,921
Accrued pension and postretirement benefits	43,644	35,656
Other non-current liabilities	16,362	21,530
Total liabilities	359,730	369,221
Commitments and contingencies (see Notes 18 and 19)		
Stockholders equity:		
Common Stock, $.10 par value; authorized 100,000,000 issued 30,145,319 and 29,118,141 shares at respective dates	3,015	2,912
Additional paid-in capital	241,360	219,236
Retained earnings	28,860	62,170
Treasury stock, at cost, 2,446,097 and 2,443,313 shares at respective dates	(20,832)	(20,768)
Deferred compensation		(2,131)

Accumulated other comprehensive loss	(5,757)	(18,168)
Total stockholders equity	246,646	243,251
Total liabilities and stockholders equity	$ 606,376	$ 612,472

See accompanying notes to consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
(dollars in thousands, except share data)

	Years Ended December 31,		
	2006	**2005**	**2004**
Gross Sales	$ 452,255	$ 414,761	$ 395,906
Allowances and rebates	1,955	2,649	1,557
Net sales	450,300	412,112	394,349
Other revenues	5,174	6,358	6,779
Net revenues	455,474	418,470	401,128
Cost of goods sold	284,125	258,345	237,042
Gross profit	171,349	160,125	164,086
Selling, general and administrative expenses	117,312	103,258	97,774
Research and development expenses	21,190	21,469	18,759
Asset impairments		82,383	48,720
Operating profit /(loss)	32,847	(46,985)	(1,167)
Other (income)/expenses			
Interest income	(820)	(1,066)	(1,436)
Interest expense	14,737	10,852	10,775
Other expenses net	1,454	47	112
Income/(loss) before income taxes	17,476	(56,818)	(10,618)
Provision for income taxes	18,721	26,413	14,613
Loss from continuing operations	$ (1,245)	$ (83,231)	$ (25,231)
Loss from discontinued operations, net of tax	(28,627)	(27,227)	(1,639)
Loss before cumulative effect of a change in accounting principle	(29,872)	(110,458)	(26,870)
Cumulative effect of a change in accounting principle	(228)		
Net loss	$ (30,100)	$ (110,458)	$ (26,870)
Basic loss per share			
Loss from continuing operations	$ (0.05)	$ (3.15)	$ (0.97)
Loss from discontinued operations, net of tax	$ (1.06)	$ (1.03)	$ (0.06)
Cumulative effect of a change in accounting principle	$ (0.01)	$	$
Net loss	$ (1.12)	$ (4.18)	$ (1.03)
Diluted loss per share			
Loss from continuing operations	$ (0.05)	$ (3.15)	$ (0.97)
Loss from discontinued operations, net of tax	$ (1.06)	$ (1.03)	$ (0.06)

Cumulative effect of a change in accounting principle	$ (0.01)	$	$
Net loss	$ (1.12)	$ (4.18)	$ (1.03)
Weighted average shares outstanding:			
Basic	26,816	26,456	26,094
Diluted	26,816	26,456	26,094

See accompanying notes to consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(dollars in thousands, except share data)

	Common Stock Shares Issued	Common Stock Par Value ($.10)	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Treasury Stock	Comprehensive Loss	Accumulated Other Comprehensive Income/(Loss)	T Stock Eq
at er 31, 2003	28,471,652	$ 2,847	$ 206,256	$ 205,787	$ (1,616)	$ (22,101)		$ 5,457	$ 3
hensive loss				(26,870)			(26,870)		(
mprehensive loss)									
currency on adjustments							20,224		
ed gains on contracts, net $716							1,276		
m pension adjustment, net $513							(3,488)		
ed gains on e for sale ble securities, x of $7							13		
mprehensive							18,025	18,025	
mprehensive							$ (8,845)		
idends at r share				(3,113)					
e of treasury						(219)			
of stock	353,951	36	6,248						
d stock			372		(366)	205			
			244			124			
	$ 28,825,603	$ 2,883	$ 213,120	$ 175,804	$ (1,982)	$ (21,991)		$ 23,482	$ 3

at									
er 31, 2004									
hensive loss									
				(110,458)			(110,458)		(1
mprehensive									
loss)									
currency									
on adjustments							(40,188)		
ed losses on									
contracts, net									
$883							(984)		
m pension									
adjustment, net									
$217							(117)		
ed losses on									
for sale									
ble securities,									
x of $0							(361)		
mprehensive									
							(41,650)	(41,650)	(
mprehensive									
							$ (152,108)		
idends at									
r share				(3,176)					
e of treasury									
						(75)			
of stock									
	292,538	29	3,877						
d stock			2,239		(149)	1,298			
at									
er 31, 2005	29,118,141	$ 2,912	$ 219,236	$ 62,170	$ (2,131)	$ (20,768)		$ (18,168)	$ 2
hensive loss									
				(30,100)			(30,100)		(
mprehensive									
loss)									
currency									
on adjustments							14,443		
ed gains on									
contracts, net									
$177							280		
liability, net of									
20)							839		
ed losses on									
for sale									
ble securities,									
x of $0							(10)		
							1,475		

fication									
ent for loss on									
ble securities									
in net earnings,									
x of $0									
mprehensive									
							17,027	17,027	
mprehensive									
							$ (13,073)		
ent to initially									
ASB Statement									
net of tax of									
								(7,088)	
ion of business									
								2,472	
idends at									
r share					(3,210)				
e of treasury									
						(113)			
of stock									
	1,069,876	103	20,977			230			
compensation			222			159			
tions			448						
d stock			477		2,131	(340)			
at									
er 31, 2006	30,188,017	$ 3,015	$ 241,360	$ 28,860	$	$ (20,832)		$ (5,757)	$ 2

See accompanying notes to consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years Ended December 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net loss	$ (30,100)	$ (110,458)	$ (26,870)
Adjustments to reconcile net loss to cash flows:			
Asset impairment charges		82,383	48,720
Depreciation and amortization	31,466	33,072	35,333
Acquired in-process research and development	1,445		
Stock based compensation included in net income	1,488	1,936	1,228
Write-off of debt origination fees	463		
Deferred income tax provision	1,532	14,264	937
Allowance for doubtful accounts	962	873	(369)
Inventory reserve	6,618	4,362	3,390
Loss on sale of assets	555	1,126	
Unrealized loss on marketable security	1,475		
Changes in assets and liabilities:			
Trade receivables	(2,175)	(12,248)	(5,399)
Inventories	(15,110)	(16,995)	(8,668)
Prepaid expenses and other current assets	(4,081)	11,707	1,088
Accounts payable and other current liabilities	12,092	9,939	4,094
Other non-current assets and liabilities	1,641	(2,513)	(10,819)
Discontinued operations:			
Loss on sale of businesses	23,244		
Changes in operating assets and liabilities	(2,335)	(3,276)	1,014
Other non-cash charges	3,448	3,469	5,054
Writedown of assets	2,092	24,794	
Net cash provided from operating activities	34,720	42,435	48,733
Cash flows from investing activities:			
Capital expenditures	(38,239)	(37,187)	(35,402)
Acquisition of businesses (net of cash acquired)		(814)	(5,256)
Acquired in-process research and development	(1,392)		
Divestiture of business, net of cash	(636)		
Other investing activities	(68)	1,482	223
Discontinued operations:			
Capital expenditures	(919)	(3,120)	(4,078)
Net cash used in investing activities	(41,254)	(39,639)	(44,513)
Cash flows from financing activities:			

Dividends	(3,210)	(3,176)	(3,113)
Long-term debt activity (including current portion):			
Borrowings	225,327	212,119	86,218
Repayments	(252,005)	(251,329)	(72,708)
Proceeds from stock options exercised	21,310	3,906	6,284
Purchase of treasury stock	(113)	(75)	(219)
Other		20	212
Net cash (used in)/provided by financing activities	(8,691)	(38,535)	16,674
Effect of exchange rate changes on cash	3,629	(9,770)	6,295
Net (decrease)/increase in cash and cash equivalents	(11,596)	(45,509)	27,189
Cash and cash equivalents at beginning of year	45,342	90,851	63,662
Cash and cash equivalents at end of year	$ 33,746	$ 45,342	$ 90,851
Supplemental disclosure:			
Interest paid, net of capitalized interest	$ 13,613	$ 11,185	$ 11,848
Income taxes paid	$ 16,690	$ 12,181	$ 20,182

See accompanying notes to consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data)

(1) The Company

Cambrex Corporation and Subsidiaries (the Company or Cambrex) primarily provides products and services worldwide to pharmaceutical and biopharmaceutical companies, generic drug companies, biotechnology companies and research organizations. The Company is dedicated to providing essential products and services to accelerate drug discovery, development and manufacturing processes for human therapeutics. The Company reports financial results in three segments: Bioproducts, consisting of research products and therapeutic application products; Biopharma segment, consisting of contract biopharmaceutical process development and manufacturing services; and Human Health segment, 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. As discussed in Note 20, on October 27, 2006 the sale of the Cork and Landen busineeses was completed and accordingly, these businesses are being reported as discontinued operations in all periods presented.

As discussed in Note 21, the sale of the businesses that comprise the Bioproducts and Biopharma segments was completed on February 6, 2007. The results of these two segments are reported as continuing operations in all periods presented. The Company will begin reporting these segments as discontinued operations during the first quarter of 2007.

(2) Summary of Significant Accounting Policies

Basis of Presentation

In October of 2006, the Company sold two businesses within the Human Health segment to a holding company controlled by International Chemical Investors II S.A. for nominal consideration. As a result of this transaction, the Company reported a non-cash charge of $23,244 in the fourth quarter of 2006, and all periods presented reflect the results of these businesses as discontinued operations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Cash Equivalents

Temporary cash investments with an original maturity of less than three months are considered cash equivalents. The carrying amounts approximate fair value.

Derivative Instruments

Derivative financial instruments are used by the Company primarily for hedging purposes to mitigate a variety of working capital, investment and borrowing risks. The use and mix of hedging instruments can vary depending on business and economic conditions and management s risk assessments. The Company uses a variety of strategies, including foreign currency forward contracts and transaction hedging, to minimize or eliminate foreign currency

exchange rate risk associated with foreign currency transactions. Gains and losses on these hedging transactions are generally recorded in earnings in the same period as they are realized, which is usually the same period as the settlement of the underlying transactions. The Company uses interest rate derivative instruments only as hedges or as an integral part of borrowings. As such, the differential to be paid or received in connection with these instruments is accrued and recognized in income as an adjustment to interest expense.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedging relationships. All cash flow hedges

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(2) Summary of Significant Accounting Policies (continued)

are linked to transactions and the Company assesses effectiveness at inception and on a quarterly basis. If it is determined that a derivative instrument is not highly effective or the transaction is no longer deemed probable of occurring, the Company discontinues hedge accounting.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market. The determination of market value involves assessment of numerous factors, including costs to dispose of inventory and estimated selling prices. Reserves are recorded to reduce carrying value for inventory determined to be damaged, obsolete or otherwise unsaleable.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation. Plant and equipment are depreciated on a straight-line basis over the estimated useful lives for each applicable asset group as follows:

Buildings and improvements	20 to 30 years, or term of lease if applicable
Machinery and equipment	7 to 15 years
Furniture and fixtures	5 to 7 years
Computer hardware and software	3 to 7 years

Expenditures for additions, major renewals or betterments are capitalized and expenditures for maintenance and repairs are charged to income as incurred.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operating expenses. Interest is capitalized in connection with the construction and acquisition of assets. The capitalized interest is recorded as part of the cost of the asset to which it relates and is amortized over the asset s estimated useful life. Total interest capitalized in connection with ongoing construction activities in 2006, 2005 and 2004 amounted to $797, $683 and $351, respectively.

Intangible Assets

Finite-lived intangible assets are recorded at cost and amortized on a straight-line basis as follows:

Patents	Amortized over the remaining life of individual patents
Product technology	5 to 18 years
Non-compete agreements	5 years
Trademarks and other	up to 40 years

Impairment of Goodwill

The Company reviews the carrying value of acquired intangible assets, including goodwill, to determine whether impairment may exist on an annual basis or whenever it has reason to believe goodwill may not be recoverable. The annual impairment test of goodwill is performed during the fourth quarter of each fiscal year.

Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of each reporting unit, determined using various valuation techniques, with the primary technique being a discounted cash flow analysis, to its carrying value. A

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(2) Summary of Significant Accounting Policies (continued)

discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about cash flows, growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company s budget and long-term plans. Discount rate assumptions are based on market participant comparables. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Impairment of Long-Lived Assets

The Company assesses the impairment of its long-lived assets, including amortizable intangible assets, and property, plant and equipment, whenever economic events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Long lived assets are considered to be impaired when the sum of the undiscounted expected future operating cash flows is less than the carrying amounts of the related assets. If impaired, the assets are written down to fair market value.

Revenue Recognition

Revenues in the Bioproducts and Human Health segments are generally recognized when title to products and risk of loss are transferred to customers. Certain contracts in the Bioproducts and Biopharma segments are based on time and materials and revenue for these contracts is recognized as services are performed. Additional conditions for recognition of revenue are that collection of sales proceeds is reasonably assured and the Company has no further performance obligations.

The Company has certain contracts that contain multiple deliverables, principally in the Biopharma and Bioproducts segments. These deliverables often include process development services and commercial production and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units.

For contracts that contain milestone-based payments, the Company recognizes revenue using the proportional performance method based on the percentage of costs incurred relative to the total costs estimated to be incurred to complete the contract. Revenue recognition computed under this methodology is compared to the amount of non-refundable cash payments received or contractually receivable at the reporting date and the lesser of the two amounts is recognized as revenue at each reporting date.

The proportional performance methodology applied by the Company, utilizes an input based measure, specifically labor costs, to determine proportional performance because the Company believes the use of an input

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(2) Summary of Significant Accounting Policies (continued)

measure is a reasonable surrogate of proportional performance compared to an output based measure, such as milestones.

Amounts billed in advance are recorded as deferred revenue on the balance sheet. Since payments received are non-refundable, the termination of a contract by a customer prior to its completion could result in an immediate recognition of deferred revenue relating to payments already received not previously recognized as revenue.

Sales terms to certain customers include remittance of discounts if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and estimated returns at the time of sale based on the terms of agreements with customers and historical experience and recognizes revenue net of these estimated costs which are classified as allowances and rebates.

Income Taxes

The Company and its eligible subsidiaries file a consolidated U.S. income tax return. Certain subsidiaries which are consolidated for financial reporting are not eligible to be included in the consolidated U.S. income tax return. Cambrex has not provided U.S. federal income and withholding taxes on its undistributed earnings from non-U.S. operations as of December 31, 2006 because it intends to reinvest such earnings indefinitely outside of the United States. If Cambrex were to distribute these earnings, it is anticipated that foreign tax credits will be available under current law to significantly reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax related to these earnings is not practical. At December 31, 2006, the cumulative amount of unremitted earnings of non-U.S. subsidiaries was approximately $44,000.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Environmental Costs

In the ordinary course of business, the Company is subject to extensive and changing federal, state, local and foreign environmental laws and regulations, and has made provisions for the estimated financial impact of environmental cleanup related costs. The Company s policy is to accrue environmental cleanup related costs of a non-capital nature, including estimated litigation costs, when those costs are believed to be probable and can be reasonably estimated. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, advancements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Such accruals are adjusted as further information develops or circumstances change. For certain matters, the Company expects to share costs with other parties. Costs of future expenditures for environmental remediation obligations are not discounted to their present value unless the aggregate amount of the liability and the timing of cash

payments are fixed or reasonably determinable. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed certain.

Foreign Currency

The functional currency of the Company s foreign subsidiaries is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts and cash flows using average

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(2) Summary of Significant Accounting Policies (continued)

rates of exchange prevailing during the year. Adjustments resulting from the translation of foreign currency financial statements are accumulated in a separate component of stockholders equity until the entity is sold or substantially liquidated. Gains or losses relating to transactions of a long-term investment nature are accumulated in stockholders equity. Gains or losses resulting from foreign currency transactions are included in the results of operations as a component of other revenues in the consolidated income statement. Foreign currency net transaction (losses)/gains were ($561), $934 and $1,135 in 2006, 2005 and 2004, respectively.

Earnings Per Common Share

All diluted earnings per share are computed on the basis of the weighted average shares of common stock outstanding plus common equivalent shares arising from the effect of dilutive stock options, using the treasury stock method.

Earnings per share calculations are as follows:

	For the Years Ended,		
	2006	**2005**	**2004**
Net loss:			
Loss from continuing operations	$ (1,245)	$ (83,231)	$ (25,231)
Loss from discontinued operations, net of tax	(28,627)	(27,227)	(1,639)
Cumulative effect of a change in accounting principle	(228)		
Net loss	$ (30,100)	$ (110,458)	$ (26,870)
Weighted average shares outstanding:			
Basic weighted average shares outstanding	26,816	26,456	26,094
Effect of dilutive stock options *			
Diluted weighted average shares outstanding	26,816	26,456	26,094
Loss per share (basic):			
Loss from continuing operations	$ (0.05)	$ (3.15)	$ (0.97)
Loss from discontinuing operations, net of tax	$ (1.06)	$ (1.03)	$ (0.06)
Cumulative effect of a change in accounting principle	$ (0.01)	$	$
Net loss	$ (1.12)	$ (4.18)	$ (1.03)
Loss per share (diluted):			
Loss from continuing operations	$ (0.05)	$ (3.15)	$ (0.97)
Loss from discontinued operations, net of tax	$ (1.06)	$ (1.03)	$ (0.06)
Cumulative effect of a change in accounting principle	$ (0.01)	$	$

Net loss	$ (1.12)	$ (4.18)	$ (1.03)

* For 2006, 2005 and 2004, the effect of stock options would be anti-dilutive and is therefore excluded.

For the year ended December 31, 2006, 2005 and 2004, 2,157,470, 3,317,847, and 2,083,716 shares respectively, were not included in the calculation of diluted shares outstanding because the effect would be anti-dilutive.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)
(2) Summary of Significant Accounting Policies (continued)

Freight Billing and Costs

The Company bills a portion of freight cost incurred on shipments to customers. Freight costs are reflected in cost of goods sold. Amounts billed to customers are recorded within net revenues. The amounts billed to customers included within net revenues were $4,814, $4,335 and $4,350 in 2006, 2005 and 2004, respectively.

Stock Based Compensation

At December 31, 2006, the Company has seven active stock-based employee compensation plans currently in effect, which are described more fully in Note 14. During 2005 and 2004, the Company accounted for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. No stock-based employee compensation cost related to the stock option plans was reflected in net income in 2005 and 2004, as all 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 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 Accounting for Stock-Based Compensation (FAS 123) as amended by FAS 148, **Accounting for Stock-Based Compensation** , to stock-based employee compensation.

	Years Ended December 31,	
	2005	**2004**
Net loss, as reported	$ (110,458)	$ (26,870)
Add: stock based compensation expense included in reported net loss	1,936	1,228
Deduct: stock-based compensation expenses determined using fair value method	21,504	5,969
Pro forma net loss	$ (130,026)	$ (31,611)
Loss per share:		
Basic as reported	$ (4.18)	$ (1.03)
Basic pro forma	$ (4.91)	$ (1.21)
Diluted as reported	$ (4.18)	$ (1.03)
Diluted pro forma	$ (4.91)	$ (1.21)

During 2005 all unvested options outstanding as well as all options granted during 2005 were fully vested by the Compensation Committee of the Board of Directors. This represents approximately 2,650,000 options which resulted in the acceleration of pro forma compensation expense of $12,711 in 2005. The Company had imposed a holding period that would require all optionees to refrain from selling shares acquired upon the exercise of these options until certain future dates. This holding period was lifted during the fourth quarter of 2006. The purpose of the accelerated vesting was to eliminate compensation expense in the income statement that the Company would otherwise have

recorded with respect to these accelerated options subsequent to the January 1, 2006 effective date of FAS 123(R). Due to this acceleration of stock options, the pro forma disclosures are not likely to be representative of the effects on reported net income for future periods.

The pro forma compensation expense for 2005 and 2004 was calculated based on recognizing ratably over the vesting period the fair value of each option determined using the Black-Scholes option-pricing model for non-performance options and a path dependent model for performance options.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(2) Summary of Significant Accounting Policies (continued)

The following assumptions were used in the Black-Scholes model to determine fair value on grant date of grants issued in 2005 and 2004:

	2005	2004
Expected volatility	41.20%	41.75%
Average dividend yield	0.57%	0.55%
Expected term	6 - 7 years	6 - 7 years
Risk-free interst rate	2.75% - 4.47%	2.75% - 3.95%

Marketable Securities

The Company accounts for marketable securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115). The Company determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase, and re-evaluates such classification as of each balance sheet date. As of December 31, 2006 and 2005, all of the Company s marketable securities were classified as available-for-sale, and as a result, were reported at fair value. Unrealized gains and losses are reflected as a net amount under the caption of accumulated other comprehensive income/(loss) in stockholders equity. Realized gains and losses are recorded in other expenses. For purposes of computing gains or losses, cost is identified on a specific identification basis. As of December 31, 2006 and 2005 the fair value of marketable securities was $1,495 and $375, respectively and the cost basis was $377 and $723, respectively. Unrealized gains of $1,331 and unrealized losses of $213 were recorded in accumulated other comprehensive income in 2006 compared to unrealized gains of $133 and unrealized losses of $481 in 2005.

During the fourth quarter of 2006 an investment in equity securities that had an unrealized loss previously recorded in accumulated other comprehensive income/(loss) was recorded as a charge to Other Expense for $1,475. The Company concluded that the continued decline in market price of the equity securities was other than temporary.

Comprehensive Loss

Included within accumulated other comprehensive income/(loss) for the Company are foreign currency translation adjustments, changes in the fair value related to derivative instruments classified as cash flow hedges, net of related tax benefit, unrealized gain on available for sales securities and changes in the pension liability, net of tax. Total comprehensive loss for the years ended 2006 and 2005 is included in the Statements of Stockholders Equity.

The components of accumulated other comprehensive income/(loss) in stockholders equity are as follows:

	2006	2005

Foreign currency translation	$ 7,359	$ (7,084)
Unrealized gain/(loss) on hedging contracts, net of tax	88	(192)
Unrealized gain/(loss) on available for sale securities	1,117	(348)
Minimum pension liability, net of tax		(10,544)
Pensions, net of tax	(14,321)	
Total	$ (5,757)	$ (18,168)

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(2) Summary of Significant Accounting Policies (continued)

Allocation of Interest to Discontinued Operations

Interest expense is allocated to discontinued operations based upon net assets consistent with EITF 87-24 Allocations of Interest on Discontinued Operations.

(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. 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 are reported as part of the Bioproducts segment.

(4) Impact of Recently Issued Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The provisions of FIN 48 will be effective for Cambrex at the beginning of the Company s 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on the consolidated financial statements.

Fair Value Measurements

In September 2006, the FASB issued FASB Statement No. 157 Fair Value Measurements (FAS 157). This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of this statement.

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued FASB Statement No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (FAS 158) which is effective for fiscal years ending after December 15, 2006. FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the balance sheet and to

recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement does not impact the amounts recognized in the income statement. FAS 158 will also require an employer to measure the funded status of a plan as of the date of the fiscal year end balance sheet. This measurement requirement is effective for fiscal years ending after December 15, 2008.

Based on the Company s funded status of plan obligations disclosed in Note 15, the impact of adopting FAS 158 was a reduction to accumulated other comprehensive income of $7,464 ($7,088 net of tax) as of December 31, 2006, with no impact to the Company s consolidated statements of operations or cash flows. There

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

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

will not be any affect on the Company s financing agreements as none of the current debt covenants will be impacted.

Accounting for Planned Major Maintenance Activities

In September 2006, the FASB issued FASB Staff Position (FSP) No. AUG AIR-1 Accounting for Planned Major Maintenance Activities . This FSP amends certain provisions of APB Opinion No. 28 Interim Financial Reporting . This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim reporting periods. This FSP is effective for the first fiscal year beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year. This FSP should be applied retrospectively for all financial statements presented, unless it is impractical to do so. The Company expects the impact of this pronouncement to be immaterial.

Amendment of FSP FAS 123(R)-1

In October 2006, the FASB issued FSP 123(R)-5 Amendment of FSP FAS 123(R)-1 . FSP 123(R)-5 applies to instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or the measurement (due to a change in classification) of those instruments will result if certain conditions are met. This FSP is effective for the first reporting period beginning after October 10, 2006 and should be applied retrospectively to prior periods. Earlier adoption is permitted in periods for which financial statements have not yet been issued. The Company is currently evaluating the impact of this pronouncement.

(5) Goodwill and Intangible Assets

In accordance with FAS 142, Goodwill and Other Intangible Assets the Company has established reporting units for purposes of testing goodwill for impairment. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. The Company evaluates goodwill and other intangible assets not subject to amortization at least on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable based on the estimated future cash flows.

During the performance of the annual goodwill impairment test in the fourth quarter of 2005, the Company determined that the goodwill of two reporting units was impaired. The Company tested for impairment and determined that the carrying value exceeded its fair value by using a discounted cash flow model. Management then computed the fair value of its tangible and intangible assets within the Biopharma segment for purposes of determining the implied fair value of goodwill. The goodwill impairment charge recorded in the fourth quarter of 2005 was $67,950 for the two reporting units in the Biopharma segment. The goodwill impairment charge is primarily due to lower long term profitability projections due to market factors. The Company also recorded a write-down of certain amortizable intangible assets within the Biopharma segment as follows: product technology of $662, patents of $135 and license agreements of $55, due to the lower future cash flow projections. Additionally, in the third quarter of 2004, the Company recorded an impairment charge of $48,720 to reduce the carrying value of goodwill in the Biopharma segment.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(5) Goodwill and Intangible Assets (continued)

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 are as follows:

	Bioproducts Segment	Biopharma Segment	Human Health Segment	Total
Balance as of January 1, 2005	$ 54,284	$ 76,618	$ 33,439	$ 164,341
Other, including purchase price adjustment	2,319	195		2,514
Translation effect	(983)		(3,502)	(4,485)
Goodwill impairment		(67,950)		(67,950)
Balance as of December 31, 2005	$ 55,620	$ 8,863	$ 29,937	$ 94,420
Translation effect	990		2,636	3,626
Balance at December 31, 2006	$ 56,610	$ 8,863	$ 32,573	$ 98,046

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

	As of December 31, 2006	As of December 31, 2005
Trademarks	$ 33,898	$ 33,898
Proprietary Process	2,052	2,052
Total	$ 35,950	$ 35,950

Intangible Assets:

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

	As of December 31, 2006		
	Gross Carrying	Accumulated	Net Carrying

	Amount	Amortization	Amount
Product technology	$ 13,232	$ (5,381)	$ 7,851
Patents	5,721	(2,108)	3,613
Supply agreements	2,110	(1,542)	568
License agreement	2,005	(586)	1,419
Other	2,203	(1,441)	762
Total	$ 25,271	$ (11,058)	$ 14,213

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(5) Goodwill and Intangible Assets (continued)

	As of December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Product technology	$ 12,326	$ (4,257)	$ 8,069
Patents	5,264	(1,676)	3,588
Supply agreements	2,110	(1,152)	958
License agreement	2,005	(401)	1,604
Other	1,974	(960)	1,014
Total	$ 23,679	$ (8,446)	$ 15,233

Amortization expense amounted to $2,159, $2,237 and $1,921 for the years ended December 31, 2006, 2005 and 2004, respectively.

The expected future amortization expense related to current intangible assets is as follows:

For the year ended December 31, 2007	$ 1,953
For the year ended December 31, 2008	$ 1,861
For the year ended December 31, 2009	$ 1,463
For the year ended December 31, 2010	$ 1,253
For the year ended December 31, 2011	$ 1,253

(6) Net Inventories

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

Net inventories consist of the following:

	December 31,	
	2006	2005
Finished goods	$ 48,186	$ 41,150
Work in process	22,107	21,588
Raw materials	21,364	15,852
Supplies	2,944	2,490

Total	$ 94,601	$ 81,080

(7) Property, Plant and Equipment

During the fourth quarter of 2005 the Company performed an impairment assessment of long-lived assets, which includes amortizable intangible assets as well as property, plant and equipment. As a result of lower long term profitability projections, the Company determined that the sum of the undiscounted expected future operating cash flows were less than the carrying value of certain long-lived assets within the Biopharma segment. The Company recorded an impairment charge for long-lived assets in the fourth quarter of $13,581 in the Biopharma segment to write down these assets to their fair value as determined primarily based on appraisals.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(7) Property, Plant and Equipment (continued)

Property, plant and equipment consist of the following:

	December 31, 2006	2005
Land	$ 6,865	$ 6,718
Buildings and improvements	144,730	122,967
Machinery and equipment	318,572	277,314
Furniture and fixtures	14,575	12,833
Construction in progress	35,951	29,857
Total	520,693	449,689
Accumulated depreciation	(293,669)	(247,905)
Net	$ 227,024	$ 201,784

Depreciation expense was $29,307, $30,835 and $33,412 for the years ended December 31, 2006, 2005 and 2004, respectively.

(8) Accrued Expense and Other Current Liabilities

The components of accrued expenses and other current liabilities are as follows:

	Years Ended December 31, 2006	2005
Salaries and employee benefits payable	$ 24,706	$ 19,559
Deferred revenue	6,011	8,978
Legal services	5,166	630
Advances from suppliers	4,967	4,293
Other	24,038	16,908
Total	$ 64,888	$ 50,368

(9) Income Taxes

Income/(loss) before income taxes consist of the following:

	Years Ended December 31,		
	2006	**2005**	**2004**
Domestic	$ (29,406)	$ (98,203)	$ (60,058)
International	46,882	41,385	49,440
Total	$ 17,476	$ (56,818)	$ (10,618)

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(9) Income Taxes (continued)

The provision for income taxes consist of the following provisions/(benefits):

	Years Ended December 31,		
	2006	**2005**	**2004**
Current:			
Federal	$ 680	$ (2,424)	$
State	(116)	659	348
International	16,625	13,914	13,328
	$ 17,189	$ 12,149	$ 13,676
Deferred:			
Federal	$ 337	$ 17,238	$
State		(6)	(17)
International	1,195	(2,968)	954
	1,532	14,264	937
Total	$ 18,721	$ 26,413	$ 14,613

The provision for income taxes differs from the statutory federal income tax rate of 35% for 2006, 2005 and 2004 as follows:

	Years Ended December 31,		
	2006	**2005**	**2004**
Income tax provision/(benefit) at U.S. federal statutory rate	$ 6,116	$ (19,886)	$ (3,716)
State and local taxes, net of federal income tax benefits	321	423	208
Effect of foreign income taxed at rates other than the U.S. federal statutory rate	(1,241)	(4,150)	(3,021)
Net change in valuation allowance	12,147	39,979	21,142
Reclassification from accumulated other comprehensive income		(2,368)	
Indefinite-lived intangibles	337	16,926	
Adjustments for prior years taxes	1,257	(2,960)	
Other	(216)	(1,551)	
Total	$ 18,721	$ 26,413	$ 14,613

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(9) Income Taxes (continued)

The components of deferred tax assets and liabilities as of December 31, 2006 and 2005 relate to temporary differences and carryforwards as follows:

	December 31, 2006	2005
Current deferred tax assets:		
Inventory	$ 2,377	$ 1,349
Receivables	454	493
Legal and related reserves	6,874	5,213
Other	4,010	3,169
Current deferred tax assets	13,715	10,224
Valuation allowances	(12,758)	(10,039)
Total current deferred tax assets	$ 957	$ 185
Current deferred tax liabilities:		
Other	$ 559	$
Total current deferred tax liabilities	$ 559	$
Non-current deferred tax assets:		
Foreign tax credits carryforwards	$ 39,957	$ 31,698
Environmental	1,359	1,166
Net operating loss carryforwards (domestic)	30,660	33,223
Net operating loss carryforwards (foreign)	6,257	6,629
Employee benefits	7,851	5,790
Impairment of investment in securities	2,920	2,764
Research & experimentation tax credits carryforwards	4,022	5,629
Alternative minimum tax credits carryforwards	4,054	4,155
Fixed assets	8,687	2,775
Intangibles	13,858	16,755
Other	3,597	3,438
Non-current deferred tax assets	123,222	114,022
Valuation allowances*	(113,898)	(107,666)
Total non-current deferred tax assets	$ 9,324	$ 6,356
Non-current deferred tax liabilities:		

Fixed assets	$ 12,867	$ 8,026
Intangibles	8,067	6,986
Indefinite-lived intangibles	17,263	16,926
Other	1,346	1,394
Total non-current deferred tax liabilities	$ 39,543	$ 33,332
Total net non-current deferred tax liabilities	$ 30,219	$ 26,976

* In addition to the effect of the domestic and foreign valuation allowances reflected in the current effective tax rate, the valuation allowance has changed due to agreed tax audit adjustments for prior year deferred tax amounts and currency translation adjustments.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(9) Income Taxes (continued)

The Company establishes a valuation allowance against deferred tax assets when it is more likely than not that the Company will be unable to realize those deferred tax assets in the future. Based on the Company s current and past performance, cumulative losses in recent years resulting from domestic operations, the market environment in which the Company operates, and the utilization of past tax attributes, the Company has established a valuation allowance of $123,423 against a portion of its domestic deferred tax assets. However, the Company has not recorded a valuation allowance against domestic tax assets which are offset by domestic deferred tax liabilities that are expected to reverse in the future. In addition, the Company has recorded a valuation allowance against deferred tax assets relating to domestic indefinite lived intangible assets of $17,263 at December 31, 2006 that had been previously preserved by tax strategies prior to year end 2005. This valuation allowance results from the Company s recent history of domestic losses and increased uncertainty regarding the timing and extent of a return to domestic profitability. With respect to the Company s foreign deferred tax assets, the Company has recorded a valuation allowance of $3,232 as of December 31, 2006.

The Company expects to maintain a full valuation allowance against its net domestic deferred tax assets, subject to the consideration of all prudent and feasible tax planning strategies, until such time as the Company attains an appropriate level of future domestic profitability and the Company is able to conclude that it is more likely than not that its domestic deferred tax assets are realizable. The change in the domestic valuation allowance for the years ended December 31, 2006 and 2005 was $7,811 and $39,934 respectively. The change in the foreign valuation allowance for the years ended December 31, 2006 and 2005 was $1,139 and $1,182, respectively.

Under the tax laws of the various jurisdictions in which the Company operates, net operating losses (NOLs) may be carried forward or back, subject to statutory limitations, to reduce taxable income in future or prior years. The domestic NOLs total approximately $86,220 and the foreign NOLs total approximately $18,392. The domestic NOLs will expire during the period from 2019 through 2026. NOLs in foreign jurisdictions will carryforward indefinitely.

As of December 31, 2006, approximately $39,957 of foreign tax credits, $4,022 of research & experimentation tax credits and $4,054 of alternative minimum tax credits were available as credits against future U.S. income taxes. Under the U.S. Internal Revenue Code, these will expire respectively 2007 through 2016, and, 2020 through 2026. The alternative minimum tax credit carryforwards have no expiration date. All domestic credits are offset by a full valuation allowance.

In 2005 the company adopted a Domestic Reinvestment Plan as described under Section 965 of the Internal Revenue Code and introduced under the American Jobs Creation Act of 2004. The Company repatriated approximately $92,000, and as a result, reduced approximately $13,000 of its deferred tax asset related to its U.S. NOL operating loss carryfoward with a corresponding adjustment to the valuation allowance previously recorded against this asset. Additionally, $3,101 of foreign tax credits as allowed under Section 965 were utilized.

Cambrex has not provided U.S. federal income and withholding taxes on its undistributed earnings from non-US operations as of December 31, 2006 because it intends to reinvest such earnings indefinitely outside of the United States. If Cambrex were to distribute these earnings, it is anticipated that foreign tax credits will be available under current law to significantly reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax related to these earnings is not practical.

As a matter of course, the Company is regularly audited by federal, state and foreign tax authorities. From time to time, these audits result in proposed assessments. The Company believes that its positions comply with applicable law and intends to continue to defend its positions. The Company believes that it has adequately provided for the estimated outcome related to these matters.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(10) Short-term Debt

The Company has lines of credit in Italy with local banks that provide three types of financing with the following limits: Overdraft protection of approximately $8,200, export financing of approximately $4,000 and advances on uncleared deposits of approximately $300. The overdraft protection and export financing facilities bear interest at varying rates when utilized, however, advances on uncleared deposits bear no interest. There was $137 outstanding as of December 31, 2006 and $43 outstanding as of December 31, 2005. The 2006 and 2005 weighted average interest rates were 4.0% and 2.0%, respectively.

(11) Long-term Debt

Long-term debt consists of the following:

	December 31, 2006	2005
Bank credit facilities	$ 158,600	$ 81,943
Senior notes		100,000
Capitalized leases	4,675	6,056
Notes payable	596	291
Subtotal	163,871	188,290
Less: current portion	1,500	1,471
Total	$ 162,371	$ 186,819

In October 2005, the Company entered into a $277,500 five-year Syndicated Senior Revolving Credit Facility (5-Year Agreement), which expires in October 2010.

The 5-Year Agreement allows the Company to choose among various interest rate options and to specify the portion of the borrowing to be covered by specific interest rates. Under the 5-Year Agreement the interest rate options available to the Company are the following: (i) LIBOR plus an applicable margin that ranges from .475% to .85%, (ii) higher of U.S. Prime Rate or Federal Funds Rate plus .5% or (iii) Money Market rate as quoted by the Administrative Agent of the Agreement. The applicable margin is based upon the ratio of consolidated funded indebtedness to consolidated EBITDA (as defined in the 5-Year Agreement, Leverage Rate). The Company also pays a facility fee between .15% to .275% on the entire credit facility which is based upon the leverage ratio. The 5-Year Agreement is subject to financial covenants requiring the Company to maintain certain levels of interest coverage ratio, leverage ratios and limitations on indebtedness. The Company complied with all covenants in this 5-Year Agreement during 2006.

The 5-Year Agreement is collateralized by dividend and distribution rights associated with a pledge of a portion of stock that the Company owns in a foreign holding company. This foreign holding company owns a majority of the Company s non-U.S. operating subsidiaries. As of December 31, 2006, there was $158,600 outstanding and $118,900 undrawn under the 5-Year Agreement. Of the undrawn amount, $102,923 was available to be borrowed as of December 31, 2006 due to limits established in the 5-Year Agreement. See Note 21 for a discussion on the payoff of the credit facility.

As of December 31, 2005, the Company had outstanding two Senior notes, a $75,000 7-year note due in June 2010 with a rate of 5.31%, and a $25,000 10-year note due in October 2013 with an annual rate of 7.05%. These Senior notes ranked equal with the Company s 5-Year Agreement. On January 27, 2006, the Company elected to prepay these Senior notes with funds provided by borrowing under the 5-Year Agreement. Approximately $5,272 was recorded in interest expense in the first quarter of 2006 related to a make whole payment of $4,809 paid to the

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(11) Long-term Debt (continued)

Senior note holders concurrent with the January 27, 2006 payment, and the related acceleration of $463 of unamortized origination fees.

Capital leases outstanding as of December 31, 2006 are for building, building improvements and equipment. These leases run through 2010 with the majority running through 2009. All capital leases are collateralized by their underlying assets.

The 2006 and 2005 weighted average interest rate for long-term bank debt was 5.8% and 5.5%, respectively.

Aggregate maturities of long-term debt are as follows:

2007	$ 1,500
2008	1,674
2009	1,823
2010	158,874
2011	
Thereafter	
Total	$ 163,871

(12) Derivatives and Fair Value of Financial Instruments

The Company uses derivative financial instruments to reduce exposures to market risks resulting from fluctuations in interest rates and foreign exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counter parties to the contracts. However, the Company does not anticipate non-performance by the counterparties.

The Company s policy is to enter into forward exchange contracts or currency options to hedge foreign currency transactions. This hedging strategy mitigates the impact of short-term foreign exchange rate movements on the Company s operating results primarily in Sweden, Belgium, and Italy. The Company s primary market risk relates to exposures to foreign currency exchange rate fluctuations on transactions entered into by these international operations that are denominated primarily in U.S. dollars, Swedish krona, and Euros. As a matter of policy, the Company does not hedge to protect the translated results of foreign operations.

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

All forward contracts outstanding at December 31, 2006 have been designated as cash flow hedges and, accordingly, changes in the fair value of derivatives are recorded each period in accumulated other comprehensive income.

Changes in the fair value of the derivative instruments reported in accumulated other comprehensive income will be reclassified into earnings in the period in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current-period earnings and is immaterial to the Company s financial results. The unrealized net gain recorded in accumulated other comprehensive income at December 31, 2006 was $88. This amount will be reclassified into earnings as the underlying forecasted transactions occur. The net gain recognized in earnings related to foreign currency forward contracts during the twelve months ended December 31, 2006 was $104.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(12) Derivatives and Fair Value of Financial Instruments (continued)

The table below reflects the notional and fair value amounts of foreign exchange contracts at December 31, 2006 and 2005.

	2006		2005	
	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Forward exchange contracts	$ 14,255	$ 292	$ 16,741	$ (166)

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount for short-term and long-term debt approximates fair value because all of this underlying debt is at variable rates.

(13) Stockholders Equity

The Company has two classes of common shares which are Common Stock and Nonvoting Common Stock. Authorized shares of Common Stock were 100,000,000 at December 31, 2006 and 2005. Authorized shares of Nonvoting Common Stock were 730,746 at December 31, 2006 and 2005. Nonvoting Common Stock with a par value of $.10, has equal rights with Common Stock, with the exception of voting power. Nonvoting Common Stock is convertible, share for share, into Common Stock, subject to any legal requirements applicable to holders restricting the extent to which they may own voting stock. As of December 31, 2006 and 2005, no shares of Nonvoting Common Stock were outstanding. The Company has authorized 5,000,000 shares of Series Preferred Stock, par value $.10, issuable in series and with rights, powers and preferences as may be fixed by the Board of Directors. At December 31, 2006 and 2005, there was no preferred stock outstanding.

The Company held treasury stock of 2,446,097 and 2,443,313 shares at December 31, 2006 and 2005, respectively, which are primarily used for issuance to employee benefit plans.

At December 31, 2006 there were 535,594 of authorized shares of Common Stock reserved for issuance for stock option plans.

(14) Stock based Compensation

The Company adopted FAS 123(R) Share-Based Payment, 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 years ended December 31, 2005 and 2004, 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 year ended December 31, 2006 does not include

compensation cost for options granted prior to January 1, 2006 as all options outstanding prior to January 1, 2006 were fully vested as of December 31, 2005. On December 31, 2006, the Company had seven active stock-based employee compensation plans. All stock options granted during 2006 vest 25% per year over four years and have a term of seven years. The Company also had outstanding at December 31, 2006 restricted stock as described below.

Beginning January 1, 2006, the Company began recognizing 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 for the years ended December 31, 2006, 2005 and 2004 were $8.00, $8.56 and $9.68, respectively.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(14) Stock based Compensation (continued)

Stock option values were estimated using a 0.55% to 0.56% dividend yield, expected volatility of 36.49% to 38.28% and a risk-free interest rate of 4.42% to 4.96%. 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 3.75 to 4.75 years was utilized based on the simplified method for determining the expected term of stock options in Staff Accounting Bulletin No. 107, Share-Based Payment. Assumptions used in estimating the fair value of stock options granted for the year ended December 31, 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 December 31, 2006, the total compensation cost related to unvested stock option awards granted to employees but not yet recognized was $1,601. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 3.3 years.

The amount of stock-based compensation costs related to stock options recorded for the year ended December 31, 2006 was $448. Diluted earnings per share changed by $0.02 in the year ended December 31, 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. For certain employees with employment contracts, all shares vest upon certain events, including a change in control. 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. These awards cliff vest on the third anniversary of the grant date. For the years ended December 31, 2006, 2005 and 2004, the Company recorded $1,040, $892 and $725, respectively, in compensation expense for this plan. In addition, the Company recorded $2,214 and $227 in compensation expense in 2005 and 2004, respectively, for restricted stock in accordance with the former CEO s sign-on agreement. As of December 31, 2006, the total compensation cost related to unvested restricted stock granted but not yet recognized was $2,553. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.7 years.

At December 31, 2005, the Company had outstanding 150,000 fully-vested cash-settled incentive SARs at a price of $19.30. These SARs were classified as liability awards and, as such, were recorded at fair value until the rights were exercised during the fourth quarter of 2006. For the year ended December 31, 2006 the Company recorded $269 in compensation expense. For the years ended December 31, 2005 and 2004 the Company recorded the SAR s at intrinsic value, which resulted in a $1,170 reversal of compensation expense in 2005 and $276 of compensation expense in 2004. 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 Company also recorded $228 in compensation expense as a cumulative effect of a change in accounting principle in accordance with FAS 123(R) in 2006.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(14) Stock based Compensation (continued)

Shares of Common Stock subject to outstanding options under the stock option plans were as follows:

		Options Outstanding				Options Exercisable	
	Authorized for Issuance	Number of Shares	Option Price per Share	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
1994 Plan	300,000	14,000	$ 26.67	4.31	$ 26.67	14,000	$ 26.67
1996 Plan	3,000,000	126,000	17.31 25.16	2.81	20.95	125,250	20.94
		169,148	26.00 37.07	3.36	30.71	169,148	30.71
		257,434	40.50 43.63	3.56	43.12	257,434	43.12
1998 Plan	1,180,000	296,985	18.75 27.56	2.37	22.57	252,400	22.78
		137,839	34.75 43.63	3.55	41.50	137,839	41.50
2000 Plan	500,000	195,775	20.28 21.71	5.93	21.03	103,900	20.72
		149,000	34.75 46.85	3.65	43.68	149,000	43.68
2001 Plan	750,000	182,130	18.68 25.88	1.55	24.69	162,055	25.10
		422,112	29.75 42.87	3.97	33.54	422,112	33.54
		8,582	46.85	4.57	46.85	8,582	46.85
2003 Plan	500,000	224,038	18.68 25.56	4.74	20.37	144,371	19.81
2004 Plan	1,500,000	580,350	18.15 21.90	3.86	21.80	580,350	21.80
	7,730,000	2,763,393	$ 17.31 $46.85		$ 28.46	2,526,441	$ 29.12

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

	Number of Shares	Weighted Average Exercise Price	Options Exercisable
Outstanding at December 31, 2003	3,702,865	$ 28.62	1,867,331
Granted	1,029,350	22.08	
Exercised	(353,951)	17.48	
Forfeited or expired	(428,407)	35.76	

Outstanding at December 31, 2004	3,949,857	27.07	1,787,967
Granted	653,033	20.07	
Exercised	(292,538)	13.32	
Forfeited or expired	(296,705)	31.45	
Outstanding at December 31, 2005	4,013,647	26.60	4,013,647
Granted	249,367	21.39	
Exercised	(1,069,876)	19.91	
Forfeited or expired	(429,745)	28.26	
Outstanding at December 31, 2006	2,763,393	28.46	
Exercisable at December 31, 2006		$ 29.12	2,526,441

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(14) Stock based Compensation (continued)

The aggregate intrinsic value for all stock options exercised for the years ended December 31, 2006, 2005 and 2004 were $2,684, $1,701 and $3,139, respectively. The aggregate intrinsic value for all stock options outstanding as of December 31, 2006 was $2,025. The aggregate intrinsic value for all stock options exercisable as of December 31, 2006 was $1,710.

Nonvested Stock Options	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006		
Granted	249,367	$ 21.39
Forfeited	(12,415)	$ 21.39
Nonvested at December 31, 2006	236,952	$ 21.39

A summary of the Company s nonvested restricted stock as of December 31, 2006 and changes during the year ended December 31, 2006, are presented below:

Nonvested Restricted Stock	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	69,756	$ 24.30
Granted	153,838	21.52
Vested during period	(30,306)	24.64
Forfeited	(27,420)	22.11
Nonvested at December 31, 2006	165,868	$ 22.02

(15) Retirement Plans and Other Postretirement Benefits

The Company adopted FAS 158 for the year ended December 31, 2006. FAS 158 requires an employer to recognize the overfunded or underfunded status of each pension and other postretirement benefit plan as an asset (for overfunded plans) or a liability (for underfunded plans) in the balance sheet replacing the accrued or prepaid asset currently recorded and reversing any amounts previously recorded with respect to any additional minimum pension liability. Shareholders Equity and Accumulated Other Comprehensive Income changed due to the change in the additional minimum liability that would have been recognized at December 31, 2006, and the incremental effect of adopting

FAS 158. The adoption of FAS 158 resulted in an increase in non-current liabilities of $12,211, a decrease in current liabilities of $5,291, a decrease in accumulated other comprehensive income of $7,464 ($7,088 net of tax) and a decrease to other assets of $544.

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.

Benefits for the salaried and certain hourly employees are based on salary and years of service, while those for employees covered by a collective bargaining agreement are based on negotiated benefits and years of service.

The Company s policy is to fund pension costs currently to the full extent required by the Internal Revenue Code. Pension plan assets consist primarily of balanced fund investments.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(15) Retirement Plans and Other Postretirement Benefits (continued)

The net periodic pension expense for 2006, 2005 and 2004 is based on a twelve month period and on valuations of the plans as of January 1. However, the reconciliation of funded status is determined as of the September 30 measurement date.

The funded status of these plans, incorporating fourth quarter contributions, as of September 30, 2006 and 2005 is as follows:

	2006	2005
Change in benefit obligation		
Benefit obligation at October 1	$ 58,451	$ 53,253
Service cost	2,571	2,751
Interest cost	3,448	3,166
Actuarial (gain)/loss	(562)	1,393
Benefits paid	(2,391)	(2,112)
Benefit obligation at September 30	$ 61,517	$ 58,451

	2006	2005
Change in plan assets		
Fair value of plan assets at October 1	$ 38,437	$ 34,887
Actual return on plan assets	3,381	3,861
Contributions	3,334	1,801
Benefits paid	(2,391)	(2,112)
Fair value of plan assets at September 30	$ 42,761	$ 38,437
Funded status	(18,756)	(20,014)
Unrecognized prior service cost		476
Unrecognized net loss		14,272
Additional minimum liability		(9,442)
Accrued benefit cost at September 30,	(18,756)	(14,708)
Fourth quarter contributions	902	
Accrued benefit cost at December 31,	$ (17,854)	$ (14,708)

The amounts recognized in accumulated other comprehensive income/(loss) as of December 31, 2006 consist of the following:

	2006
Actuarial loss	$ 12,922
Prior service cost	430
	$ 13,352

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(15) Retirement Plans and Other Postretirement Benefits (continued)

Major assumptions used in determining the benefit obligation as of September 30 for the Company s domestic pension plans are presented in the following table:

	2006	2005
Discount rate	6.00%	5.75%
Rate of compensation increase	5.00%	5.00%

The components of net periodic pension cost are as follows:

	2006	2005	2004
Components of net periodic pension cost			
Service cost	$ 2,571	$ 2,751	$ 2,395
Interest cost	3,448	3,166	3,010
Expected return on plan assets	(3,041)	(2,939)	(2,768)
Amortization of prior service cost	46	46	46
Recognized actuarial loss	448	466	592
Net periodic benefit cost	$ 3,472	$ 3,490	$ 3,275

The estimated amounts that will be amortized from accumulated other comprehensive income/(loss) into net periodic cost in 2007 are as follows:

	Pension Benefits
Actuarial loss	$ 395
Prior service cost	46
Total	$ 441

Major assumptions used in determining the net cost for the Company s domestic pension plans are presented in the following table:

	2006	2005	2004
Discount rate	5.75%	5.75%	6.00%
Expected return on plan assets	8.00%	8.50%	8.50%
Rate of compensation increase	5.00%	5.00%	4.50%

In making its assumption for the long-term rate of return, the Company has utilized historical rates earned on securities allocated consistently with its investments.

The aggregate Accumulated Benefit Obligation (ABO) of $56,376 exceeds plan assets by $13,616 as of September 30, 2006 for all domestic plans.

The Company expects to contribute approximately $5,647 in cash to its two U.S. defined-benefit pension plans in 2007.

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(15) Retirement Plans and Other Postretirement Benefits (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2007	$ 2,270
2008	$ 2,391
2009	$ 2,526
2010	$ 2,658
2011	$ 2,846
2012-2016	$ 17,965

The investment objective for plan assets is to achieve long-term growth of capital with exposure to risk set at an appropriate level. The objective shall be accomplished through the utilization of a diversified asset mix consisting of equities (domestic and international) and taxable fixed income securities. The account is to be managed on a fully discretionary basis to obtain the highest total rate of return in keeping with a moderate level of risk.

The allocation of pension plan assets is as follows:

		Percentage of Plan Assets	
Asset Category:	**Target Allocation**	**2006**	**2005**
U.S. equities	30%-70%	45.8%	49.9%
International equities	0%-20%	11.7%	11.2%
U.S. fixed income	20%-60%	35.6%	36.9%
Cash	N/A	6.9%	2.0%
		100.0%	100.0%

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

The benefit obligation for these plans as of December 31, 2006 and 2005 is as follows:

	2006	2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 8,030	$ 7,422
Service cost	193	224
Interest cost	463	434
Actuarial loss	394	280
Benefits paid	(264)	(330)
Benefits obligation at end of year	8,816	8,030
Funded status	(8,816)	(8,030)
Unrecognized prior service cost		20
Unrecognized net transition obligation		199
Unrecognized net loss		1,747
Additional minimum liability		(1,649)
Accrued benefit at December 31,	$ (8,816)	$ (7,713)

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(15) Retirement Plans and Other Postretirement Benefits (continued)

The amounts recognized in accumulated other comprehensive income/(loss) as of December 31, 2006 consist of the following:

	2006
Actuarial loss	$ 2,098
Prior service cost	16
Transition obligation	98
	$ 2,212

Major assumptions used in determining the benefit obligation as of December 31 for the Company s SERP Plans are presented in the following table:

	2006	2005
Discount rate	5.75%	5.75%
Rate of compensation increase	5.00%	5.00%

The components of net periodic benefit cost are as follows:

	2006	2005	2004
Components of net periodic benefit cost			
Service cost	$ 193	$ 224	$ 215
Interest cost	463	434	440
Amortization of prior service cost	4	4	4
Recognized actuarial loss	143	140	159
Net periodic benefit cost	$ 803	$ 802	$ 818

The estimated amounts that will be amortized from accumulated other comprehensive income/(loss) into net periodic cost in 2007 are as follows:

	SERP

	Benefits
Actuarial loss	$ 66
Prior service cost	4
Transition obligation	98
Total	$ 168

Major assumptions used in determining the net cost for the Company s SERP plans are presented in the following table:

	2006	2005	2004
Discount rate	5.75%	5.75%	6.00%
Rate of compensation increase	5.00%	5.00%	5.00%

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(15) Retirement Plans and Other Postretirement Benefits (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	SERP Benefits
2007	$ 480
2008	$ 598
2009	$ 612
2010	$ 617
2011	$ 616
2012-2016	$ 2,956

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 funded status of these plans, as of December 31, 2006 and 2005 is as follows:

	2006	2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 13,243	$ 13,810
Service cost	721	606
Interest cost	578	607
Plan participants contributions		
Actuarial loss	176	873
Benefits paid/transfers	(312)	(252)
Foreign exchange	2,156	(2,401)
Benefit obligation at end of year	$ 16,562	$ 13,243
Change in plan assets		
Fair value of plan assets at beginning of year	$ 583	$ 488
Actual return on plan assets	24	9

Company contributions	377	126
Plan participants contributions	58	44
Benefits paid	(38)	(10)
Foreign exchange	87	(74)
Fair value of plan assets at end of year	$ 1,091	$ 583
Funded status	$ (15,472)	$ (12,663)
Unrecognized actuarial loss		2,796
Unrecognized prior service cost		(80)
Unrecognized net gain		(35)
Additional minimum liability		(1,646)
Foreign exchange		(63)
Accrued benefit	$ (15,472)	$ (11,691)

CAMBREX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data) (Continued)

(15) Retirement Plans and Other Postretirement Benefits (continued)

The amounts recognized in accumulated other comprehensive income/(loss) as of December 31, 2006 consist of the following:

	2006
Actuarial loss	$ 2,944
Prior service credit	(75)
	$ 2,869

Major assumptions used in determining the benefit obligation as of December 31, for the Company s international pension plans are presented in the following table:

	2006	2005
Discount rate	4.00%-4.50%	4.50%-5.00%
Rate of compensation increase	2.70%-3.25%	3.00%-3.50%

The components of the net periodic pension cost are as follows:

	2006	2005	2004
Components of net periodic pension cost			
Service cost	$ 721	$ 606	$ 520
Interest cost	578	607	621
Expected return on plan assets	(88)	(67)	(52)
Amortization of unrecognized net obligation	(35)	(35)	(35)
Amortization of prior service cost	(6)	(6)	(6)
Recognized actuarial loss	73	49	36
Net periodic benefit cost	$ 1,243	$ 1,154	$ 1,084

The estimated amounts that will be amortized from accumulated other comprehensive income/(loss) into net periodic cost in 2007 are as follows:

	Pension Benefits
Actuarial loss	$ 170