

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 55933 / June 20, 2007

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2620 / June 20, 2007

ADMINISTRATIVE PROCEEDING
File No. 3-12662

In the Matter of

CAMBREX CORPORATION,

Respondent.

**ORDER INSTITUTING CEASE-AND-DESIST
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING A CEASE-AND-DESIST ORDER
PURSUANT TO SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Cambrex Corporation (“Cambrex” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Respondent

1. Cambrex is a Delaware corporation with headquarters in East Rutherford, New Jersey. Cambrex supplies human health and bioscience products to the life sciences industry, produces feed additives and intermediates for the animal health/agriculture markets, and manufactures other specialty and fine chemicals. For the fiscal year ended December 31, 2005, Cambrex had net revenues of \$455,097,000 and a net loss of \$110,458,000. Cambrex's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and trades on the New York Stock Exchange.

Summary

2. Between at least 1997 through 2001, Cambrex accrued an imbalance of approximately \$17.1 million in its intercompany accounts. Of that amount, approximately \$3.5 million was erroneously reflected as income when it in fact should have been accounted for as an operating expense, and Cambrex could not ascertain whether another \$2.6 million was similarly booked improperly, though it also treated this figure as if it had been reflected as income. As a result, Cambrex issued erroneous periodic and annual reports.

3. The erroneous filings occurred because Cambrex failed to reconcile its intercompany accounts on a monthly basis. Cambrex failed to reconcile its intercompany accounts for three principal reasons. First, Cambrex did not adequately staff its internal accounting function. Second, Cambrex lacked a functional intercompany transaction policy. Third, when Cambrex instituted projects to perform a historical reconciliation of its intercompany accounts, the projects were not completed. Cambrex failed to reconcile the intercompany accounts even though its outside auditor provided Cambrex with several management letters that warned of potential ramifications if the imbalance was not fixed.

4. Cambrex's failure to reconcile its intercompany accounts continued until the end of 2002, when Cambrex was forced to address the issue because of the certification requirements of the newly-enacted Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). A Cambrex subsidiary's controller initially refused to sign a Sarbanes-Oxley-related internal sub-certification because of his awareness of the problems reconciling the intercompany accounts. His refusal triggered a series of discussions by Cambrex's audit committee concerning the issue. In December 2002, Cambrex hired a new CFO with a strong accounting background, who finally devoted adequate resources to the task of reconciling the historical imbalances.

5. As a result, in January 2003, Cambrex announced that it would restate its financial results for the years ending December 31, 1997, through December 31, 2001 (the "Restatement

Period”). Cambrex stated that it had overstated pre-tax income by a total of \$6.1 million, or \$5.1 million after taxes, over the fiscal years 1997 through 2001. Net income was overstated by \$1.3 million, \$2.9 million, \$0.2 million and \$0.8 million in 2001, 2000, 1999, and 1998, respectively, and understated by \$0.1 million in 1997.

Background

A. Intercompany Accounts at Cambrex

6. Cambrex has approximately fourteen operating subsidiaries located throughout the world. In order to record and account for activity, such as the transfer of expenses, assets, or liabilities, conducted between these affiliated companies, Cambrex utilizes intercompany accounts.

7. Intercompany transactions are supposed to be booked through an identical corresponding charge by each side of a given transaction or expense, which, if done properly, would have no impact on Cambrex’s consolidated assets, liabilities, expenses, or revenues. For example, if Cambrex corporate (“Corporate”) agrees to absorb an expense incurred by a subsidiary, if recorded correctly, Corporate should record a debit to an expense account, increasing the expense on Corporate’s income statement, and a credit to an intercompany account on its balance sheet. The subsidiary should record a credit to an expense account on its income statement and a debit to an intercompany account on its balance sheet. If Corporate were to initially record and pay for an expense that should be charged to a subsidiary, the above entries should be reversed. In both instances, as a result of these identical credits and debits, the accounts would net to zero and there would be no impact on Cambrex’s consolidated assets, liabilities, expenses, or revenues.

8. Within Corporate, Cambrex’s internal accounting group, known as the finance department (“Finance Department”), was responsible for, among other things, reviewing and reconciling the intercompany accounts. During the relevant time periods, the Corporate Finance Department was supervised by the Controller. A designated employee, usually the most junior, was supposed to review the intercompany accounts as part of a process to ensure that all intercompany accounts balanced and were properly netted-out in consolidation. To do this, the employee used computer software that alerted the employee if an imbalance existed, in which case the employee was then supposed to access separate software that essentially operated as Cambrex’s general ledger, to view the detail behind the specific transactions that caused an imbalance within a particular intercompany or group loan account.

9. Once discrepancies were identified, the Finance Department was tasked with resolving the difference through discussions with relevant personnel at the subsidiary. If no agreement could be reached, the Corporate Controller was supposed to make a unilateral, final decision about how to treat the discrepancy. During the Restatement Period, this process did not occur. Instead of reconciling the difference, the designated Finance Department employee simply logged the discrepancies.

10. The intercompany accounts were incorporated into Cambrex’s financial statements during the monthly consolidation process. Because of its many subsidiaries, Cambrex performed a

multi-level consolidation that generated a single, final balance sheet, incorporating Corporate as well as both the domestic and international subsidiaries. The consolidation was performed at the close of every month, in order to generate monthly financial reports, comparing the actual results reported by the sites with their forecasted and prior year's results. During the consolidation process, Cambrex would identify the sum of all intercompany imbalances (those entries where both sides to an intercompany transaction did not book the same dollar figure). Under Generally Accepted Accounting Principles, it is necessary to eliminate intercompany transactions in the consolidation process. Cambrex erroneously believed it eliminated its intercompany imbalances by entering the sum of all the imbalances in a line item, known as a "top side adjustment," on its consolidated balance sheet. The top-side adjustment was only made on the balance sheet – and not the income statement – because of a long-standing but erroneous assumption that the imbalanced intercompany accounts did not affect Cambrex's income statement.

11. In fact, under certain circumstances, Cambrex's imbalanced intercompany accounts did affect its income statement. This occurred when, for example, a subsidiary recorded an expense that it intended to transfer to Corporate where, in order to transfer the expense, it should have recorded a credit to an expense account to reduce its operating expenses on its income statement and a debit to an intercompany account on its balance sheet. When Corporate, however, did not book an offsetting entry to increase its expenses and adjust its intercompany account, this resulted in an understatement of consolidated expenses and an overstatement of consolidated income in Cambrex's consolidated financial statement. Similarly, there were instances where Corporate intended to transfer certain fringe benefit expenses to a subsidiary and Corporate recorded one amount and the subsidiary recorded a different amount resulting in a corresponding understatement or overstatement of consolidated expenses, which also affected Cambrex's consolidated income statement.

B. Cambrex Failed to Perform Monthly Reconciliations of the Intercompany Accounts.

12. During the Restatement Period, Cambrex did not reconcile its intercompany accounts on a monthly basis. This failure contributed to a growing imbalance that needed to be corrected through a historical reconciliation. Although Cambrex executives were aware of the problem – and were specifically told by its auditor in 1999 that the failure to reconcile intercompany accounts could ultimately impact earnings – they took only limited and inadequate steps to address the issue. The historical reconciliation project was started several times, only to be quickly abandoned. Throughout, Cambrex failed to provide adequate staffing to the reconciliation project.

13. The Corporate Finance Department was inadequately staffed to reconcile the intercompany accounts. In addition, Cambrex's limited accounting staff prioritized other responsibilities, such as monthly and periodic financial reporting, over the monthly intercompany reconciliation. In fact, Finance Department personnel believed that other group responsibilities took precedence over the monthly intercompany reconciliation. As a result, most personnel responsible for the internal accounting function made only a limited effort, if any, to perform a monthly reconciliation. These personnel rarely communicated with Cambrex subsidiaries concerning discrepancies in intercompany accounts, and did not ensure that such discrepancies

were remedied, but only logged the existence of these unresolved balances. Furthermore, the Finance Department experienced considerable staff turnover and new employees were not trained to handle the monthly reconciliation.

14. The individuals directly responsible for supervising these employees were aware that the intercompany imbalances were not being fully reconciled on a monthly basis and that the Finance Department was not properly staffed to do so. As a result, these individuals took insufficient steps to ensure that the intercompany accounts were regularly reconciled.

15. Although Cambrex maintained an intercompany transaction policy, it was not shown to various employees responsible for its implementation. The policy's instructions were not followed because several individuals tasked with reconciling the intercompany accounts never saw the document. In addition, this document offered conflicting guidance by simultaneously mandating that the accounts be reconciled on a monthly basis and allowing unreconciled items to be carried into the following month. It was also unclear whether the document was intended to cover all intercompany transactions or a more limited subset of transactions. Moreover, while the document required that a schedule of all intercompany balances be completed and sent to Corporate as part of the quarterly reporting process, such schedules were not always prepared.

16. A supervisor responsible for the reconciliation of the intercompany accounts was aware of an intercompany transaction policy and knew that certain steps outlined in the policy were being taken, yet he did not recall reviewing it or consulting it. Although at various times the company set out to perform a historical reconciliation – often terming the project a “high priority” – the project was never completed. Cambrex failed to complete the historical reconciliation even though Cambrex's auditor warned that Cambrex's failure to properly reconcile the unbalanced accounts could affect the reported income statement in its financial disclosures.

C. Cambrex Failed to Reconcile the Historical Imbalance in its Intercompany Accounts.

17. By failing to reconcile the intercompany accounts on a monthly basis, Cambrex generated a lengthy backlog of unreconciled entries. In order to determine the proper treatment of the entries underlying the imbalance, it became necessary to perform a historical reconciliation of the intercompany accounts.

18. However, during the Restatement Period, Cambrex did not reconcile the historical imbalance. This failure occurred because Cambrex did not employ sufficient personnel to perform the historical reconciliation and Cambrex never completed several reconciliation initiatives. These failures occurred even though Cambrex's auditor warned that Cambrex's failure to properly reconcile the unbalanced accounts could affect the reported income statement in Cambrex's financial disclosures.

19. Cambrex relied on its internal accounting personnel to reconcile the imbalanced historical entries. However, much like the monthly reconciliation process, Cambrex did not employ sufficient manpower or devote adequate resources to complete the historical reconciliations. Again, supervisors were aware that the Finance Department was not performing

the historical intercompany reconciliation and was not properly staffed to do so. In fact, there were two substantial periods of time, each lasting several months, when Corporate performed no work to reconcile the historical imbalance.

20. Each year between 1999 and 2001, Cambrex instituted projects, at the direction of Finance Department supervisors, to reconcile the historical intercompany account imbalance. None of the reconciliation projects, one of which included assistance from an employee outside the Finance Department and an accountant employed by Cambrex's outside auditor, was completed, and many steps set forth in the various plans were either not taken or left incomplete. Furthermore, Cambrex supervisors never took adequate steps to determine whether the internal accounting personnel had reconciled the intercompany account imbalances or why these tasks had not been completed.

21. Even when Cambrex identified a serious problem within the intercompany accounts, it took insufficient corrective steps. For instance, during 2001, Cambrex discovered that a subsidiary had been consistently incorrectly booking payments for fringe benefits. Upon discovering these errors, Cambrex and its personnel had direct evidence that a certain portion of the reconciliation resulted in an income effect on its P&L, which refuted a long-standing assumption about the nature of the imbalances. Yet, even after learning of this error, Cambrex did not take adequate measures to complete the historical reconciliation and determine the full extent of any adjustment needed to be made.

D. Cambrex Did Not Adequately Address Management Letters From its Auditor.

22. Cambrex failed to reconcile the historical intercompany imbalance in spite of several annual warnings by its auditor of the consequences of such a failure.

23. In early 1999, Cambrex's outside auditor issued a management letter to Cambrex for its audit for the year ended December 31, 1998 ("1998 Management Letter"). The 1998 Management Letter outlined key issues arising from that year's audit and recommended changes. Among the suggestions was a recommendation titled: "Reconciliations over Intercompany Transactions Should Be Improved." The recommendation stated the following:

The Company should improve the adequacy of intercompany balance reconciliations. This issue, if not addressed, may result in a misstatement of intercompany accounts and not allow for proper elimination of such at the consolidated level. This could result in an unfavorable impact to earnings in the period discovered.

We recommend that the Company implement procedures to identify and reconcile intercompany transactions.

24. In its response to the 1998 Management Letter, Cambrex's management stated that it agreed with its outside auditor's observation and recommendation. It also stated that, "[a] draft policy is currently issued which addresses the procedures required to confirm intercompany balances between subsidiaries on a monthly basis." The 1998 Management Letter, along with

Cambrex management's response, were provided to Cambrex's audit committee.

25. After receiving the 1998 Management Letter, neither Cambrex management, nor its audit committee, took the necessary steps to reconcile the historical imbalances or address the failures to reconcile the accounts on a monthly basis. Furthermore, no steps were taken to determine if Cambrex's accounting department was following the intercompany policy.

26. Cambrex's auditor issued another management letter to Cambrex in the beginning of 2000, which covered the 1999 audit. In this letter, the auditor stated that Cambrex did not have an intercompany policy and did not perform periodic reconciliation of balances. Cambrex's auditor warned that, if unchecked, the unreconciled accounts could result in an inability to "detect a misstatement" and "an unexpected and unfavorable impact to earnings in the period discovered." Cambrex's auditor recommended that Cambrex "implement procedures to reconcile intercompany account balances at least quarterly." In its response, Cambrex noted that it had "initiated a project to bring intercompany accounts into balance" and, once finished, they would be "reconciled formally as part of the quarterly management reporting process." Cambrex also claimed to be evaluating "the feasibility of implementing an automated balancing feature for intercompany transactions in the [computer] system." The management letter for the 1999 audit, and Cambrex management's response were provided to Cambrex's audit committee.

27. Again, Cambrex did not follow through in its response and, as a result, did not fulfill the steps needed to reconcile the intercompany and group loan accounts. The project that Cambrex initiated to reconcile the accounts was never completed. Cambrex also did not begin formally reconciling the account balances on a quarterly basis, and an automated balancing feature was not implemented.

28. During the next two years, Cambrex's auditor provided Cambrex with management letters for the 2000 and 2001 audits that were not distributed to the audit committee. In the management letters, the auditor stated that periodic reconciliations of intercompany balances were still not being performed, and reiterated their recommendation that Cambrex implement procedures to reconcile intercompany balances on a quarterly basis. It was also noted that the management letter from 2000 (for the 1999 audit) was still applicable. Cambrex management did not provide a response to these comments.

E. Effect of Sarbanes-Oxley Act on the Reconciliation Project

29. Cambrex did not adequately address its historical reconciliation problems until the end of 2002, after issues were raised concerning the certification of Cambrex's financial disclosures pursuant to Sarbanes-Oxley. In order to complete the CEO and CFO certifications required by Sarbanes-Oxley, Cambrex required sub-certifications from all of its Corporate and subsidiary Controllers concerning the accuracy of its financial reporting. When the controller for one of Cambrex's subsidiaries initially refused to sign the sub-certification because of his awareness of the problems concerning the intercompany accounts, this refusal prompted a series of discussions by the Audit Committee. In December 2002, Cambrex hired a new CFO who engaged additional accounting staff and consultants and mobilized a strong reconciliation effort. As a

result, Cambrex finally devoted sufficient resources to reconcile all of the historical imbalances.

F. Cambrex's Restatement

30. At the close of trading on January 23, 2003, Cambrex issued a press release announcing that it would restate its financial results for the years ended December 31, 1997, through December 31, 2001, after discovering "certain discrepancies" in its intercompany accounts. In its annual report for fiscal year 2002 filed on March 20, 2003, Cambrex stated that "certain administrative and other charges were not properly expensed in [] prior periods" and, as a result, Cambrex had overstated pre-tax income by \$6.1 million, or \$5.1 million after taxes, for the fiscal years 1997 through 2001. Net income was overstated by \$1.3 million, \$2.9 million, \$0.2 million and \$0.8 million in 2001, 2000, 1999, and 1998, respectively, and understated by \$0.1 million in 1997.

31. As a result of its 2003 restatement, Cambrex's pre-tax earnings and net income were affected as follows:

	Increase (Decrease) in Reported Amounts <u>(\$Millions except EPS)</u>		
<u>Year</u>	<u>Pre-tax Earnings</u>	<u>Net Income</u>	<u>EPS</u>
1997-1999	(\$0.9)	(\$.9)	(\$.03)
2000	(\$3.5)	(\$2.9)	(\$.11)
2001	(\$1.7)	(\$1.3)	(\$.05)

The change in pre-tax earnings as a result of the restatement represented a downward revision of .60%, 5.29% and 4.79% for the years 1997-1999, 2000, and 2001, respectively. Pre-tax earnings for these years, following the restatement, were \$152.2, \$66.4, and \$34.7 (millions) for 1997-1999, 2000, and 2001, respectively. Similarly, the restatement reflected a decrease in net income of .95%, 6.20% and 4.95% for 1997-1999, 2000, and 2001, respectively, corresponding to restated net income for those periods, of \$94.2, \$46.8, and \$25.5 (millions), respectively.

32. Cambrex's \$6.1 million overstatement consisted of approximately \$3.5 million that Cambrex identified as having been erroneously booked as a reduction of operating expenses, which resulted in an increase in the income reported on Cambrex's income statement, and another \$2.6 million that it was unable to determine whether to treat as having impacted its income or balance statement. To be conservative, Cambrex treated the \$2.6 million as impacting income.

G. Legal Standards

33. Section 13(b)(2)(A) of the Exchange Act requires issuers to make and keep books, records, and accounts that, in reasonable detail, accurately and fairly reflect transactions and asset dispositions, and Section 13(b)(2)(B) of the Exchange Act requires issuers to devise and maintain a system of internal controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles.

34. Section 21C of the Exchange Act provides that the Commission may order any person who is or was a cause of a violation of any provision of the Exchange Act, due to an act or omission the person knew or should have known would contribute to the violation, to cease and desist from committing or causing such violation.

H. Conclusions

35. Cambrex failed, over at least a five-year period, to correct long standing deficiencies in the handling of its intercompany accounts, and failed to reconcile its intercompany accounts on a monthly or periodic basis. As a result, Cambrex's books, records and accounts did not, in reasonable detail, accurately and fairly reflect its intercompany accounts or income statement.

36. By its failure to implement a system of internal controls sufficient to prevent the intercompany and group loan accounts from becoming imbalanced, and its failure, on several occasions, to rectify the intercompany and group loan imbalance problem after becoming aware of it, Cambrex failed to implement internal accounting controls relating to its intercompany and group loan accounts which were sufficient to provide reasonable assurances that these accounts were accurately stated in accordance with generally accepted accounting principles.

37. As a result of the conduct described above, Cambrex violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

38. Cambrex, as a result of the conduct described above, also violated Section 13(b)(2)(B) which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

Cambrex's Remedial Efforts

39. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

Undertakings

Cambrex has undertaken to:

40. Reconcile account balances between and among Cambrex and any of its related entities (hereinafter, the “intercompany accounts”) on a monthly, quarterly and annual basis;

41. Institute formal, written policies and procedures for reconciling the intercompany accounts on a monthly, quarterly and annual basis, including, but not limited to, the implementation of internal controls adopted to ensure that such reconciliation takes place;

42. For at least two (2) years from the date of the Order, Cambrex shall designate an experienced accountant within its Finance Department to function as the Intercompany and Group Loan Review Accountant. This individual will be responsible for ensuring compliance with paragraphs 40-41 above;

43. For at least two (2) years from the date of the Order, the Cambrex Controller (or individual with equivalent authority) will certify, at the end of each quarterly reporting period, that: (i) he or she has supervised the Intercompany and Group Loan Accountant; and (ii) Cambrex has complied with paragraphs 40-42 above;

44. For at least two (2) years from the date of the Order, Cambrex will employ its outside auditor to conduct an annual review of its intercompany accounts, the reconciliation of these accounts and the compliance with the undertakings in this settlement. The company shall cooperate fully with its outside auditor and shall provide the auditor with access to its files, books, records, and personnel as reasonably requested for the review. The results of the review will be presented, both in writing and orally, to both the Chief Financial Officer and the Chief Executive Officer no more than 30 days after the conclusion of the annual audit and in writing to the Commission’s staff no more than 30 days after the conclusion of the annual audit;

45. Maintain and preserve the certifications, pursuant to paragraph 43, for a period of ten (10) years from the date of the Order;

46. Provide a written report, within one hundred twenty (120) calendar days of the date of the Order to the Commission’s staff that details Cambrex’s implementation of the undertakings articulated in paragraphs 40-45; and

47. Cambrex shall send all reports, notices and other written communications with the Commission’s staff in connection with this Order to David Rosenfeld, Associate Regional Director, United States Securities and Exchange Commission, 3 World Financial Center, Room 4300, New York, New York 10281.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Cambrex's Offer.

Accordingly, it is hereby ORDERED that:

- A. Respondent Cambrex cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act.
- B. Respondent shall comply with the undertakings in Section III above.

By the Commission.

Nancy M. Morris
Secretary