

ACETO CORP
Form 10-Q
May 08, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009
Commission file number 000-04217

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

New York
(State or other jurisdiction of incorporation or
organization)

11-1720520
(I.R.S. Employer Identification Number)

One Hollow Lane, Lake Success, NY 11042
(Address of principal executive offices)

(516) 627-6000
(Registrant's telephone number, including area code)

www.aceto.com
(Registrant's website address)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Edgar Filing: ACETO CORP - Form 10-Q

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The Registrant has 24,768,745 shares of common stock outstanding as of May 5, 2009.

ACETO CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2009

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets – March 31, 2009 (unaudited) and June 30, 2008	3
Condensed Consolidated Statements of Income – Nine Months Ended March 31, 2009 and 2008 (unaudited)	4
Condensed Consolidated Statements of Income – Three Months Ended March 31, 2009 and 2008 (unaudited)	5
Condensed Consolidated Statements of Cash Flows – Nine Months Ended March 31, 2009 and 2008 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Report of Independent Registered Public Accounting Firm	15
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	26
Item 4. Controls and Procedures	27
PART II. OTHER INFORMATION	27
Item 1A. Risk Factors	27
Item 6. Exhibits	28
Signatures	29
Exhibits	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACETO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share amounts)

	March 31, 2009 (unaudited)	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,263	\$ 46,515
Investments	487	548
Trade receivables, less allowance for doubtful accounts (March, \$1,007; June, \$477)	59,129	68,220
Other receivables	7,910	4,819
Inventory	63,572	71,109
Prepaid expenses and other current assets	1,183	817
Deferred income tax asset, net	1,797	1,756
Total current assets	173,341	193,784
Long-term notes receivable	-	347
Property and equipment, net	4,213	4,307
Property held for sale	6,978	6,978
Goodwill	1,801	1,987
Intangible assets, net	4,823	5,421
Deferred income tax asset, net	1,786	4,098
Other assets	5,488	5,321
TOTAL ASSETS	\$ 198,430	\$ 222,243
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 25,397	\$ 43,480
Note payable – related party	-	500
Accrued expenses	16,865	19,948
Deferred income tax liability	1,078	1,070
Total current liabilities	43,340	64,998
Long-term liabilities	7,049	7,034
Environmental remediation liability	7,578	7,578
Deferred income tax liability	444	1,751
Minority interest	464	473
Total liabilities	58,875	81,834
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, \$.01 par value, 40,000 shares authorized; 25,644 shares issued; 24,766 and 24,446 shares outstanding at March 31, 2009 and June 30, 2008, respectively	256	256

Edgar Filing: ACETO CORP - Form 10-Q

Capital in excess of par value	56,431	56,832
Retained earnings	86,880	81,778
Treasury stock, at cost, 878 and 1,198 shares at March 31, 2009 and June 30, 2008, respectively	(8,482)	(11,571)
Accumulated other comprehensive income	4,470	13,114
Total shareholders' equity	139,555	140,409
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 198,430	\$ 222,243

See accompanying notes to condensed consolidated financial statements and accountants' review report.

3

ACETO CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (unaudited and in thousands, except per-share amounts)

	Nine Months Ended March 31,	
	2009	2008
Net sales	\$ 247,854	\$ 254,888
Cost of sales	203,917	211,803
Gross profit	43,937	43,085
Selling, general and administrative expenses	32,921	32,924
Research and development expenses	153	632
Operating income	10,863	9,529
Other income (expense):		
Interest expense	(67)	(63)
Interest and other income, net	465	596
	398	533
Income before income taxes	11,261	10,062
Provision for income taxes	3,683	4,566
Net income	\$ 7,578	\$ 5,496
Net income per common share	\$ 0.31	\$ 0.23
Diluted net income per common share	\$ 0.30	\$ 0.22
Weighted average shares outstanding:		
Basic	24,457	24,344
Diluted	24,976	24,806

See accompanying notes to condensed consolidated financial statements and accountants' review report.

ACETO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited and in thousands, except per-share amounts)

	Three Months Ended March 31,	
	2009	2008
Net sales	\$ 79,800	\$ 98,255
Cost of sales	66,545	82,212
Gross profit	13,255	16,043
Selling, general and administrative expenses	10,458	11,560
Research and development expenses	-	279
Operating income	2,797	4,204
Other (expense), income:		
Interest expense	(5)	(32)
Interest and other (expense), income, net	(263)	610
	(268)	578
Income before income taxes	2,529	4,782
Provision for income taxes	594	1,488
Net income	\$ 1,935	\$ 3,294
Net income per common share	\$ 0.08	\$ 0.14
Diluted net income per common share	\$ 0.08	\$ 0.13
Weighted average shares outstanding:		
Basic	24,569	24,348
Diluted	25,052	24,745

See accompanying notes to condensed consolidated financial statements and accountants' review report.

ACETO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Nine Months Ended March 31,	
	2009	2008
Operating activities:		
Net income	\$ 7,578	\$ 5,496
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,258	1,935
Provision for doubtful accounts	520	15
Non-cash stock compensation	1,174	672
Deferred income taxes	972	1,297
Unrealized loss on trading securities	254	84
Changes in assets and liabilities:		
Investments-trading securities	-	325
Trade accounts receivable	5,137	(10,854)
Other receivables	(3,884)	(580)
Inventory	4,499	(295)
Prepaid expenses and other current assets	(407)	88
Other assets	(266)	(720)
Accounts payable	(16,534)	1,224
Other accrued expenses and liabilities	(880)	1,480
Net cash (used in) provided by operating activities	(579)	167
Investing activities:		
Payments received on notes receivable	413	73
Purchases of property and equipment, net	(376)	(1,000)
Purchases of investments	(10,204)	-
Maturities of investments	9,993	1,000
Sales of investments	-	500
Purchase of intangible assets	(420)	(25)
Net cash (used in) provided by investing activities	(594)	548
Financing activities:		
Proceeds from exercise of stock options	1,020	74
Excess tax benefit on stock option exercises and restricted stock	161	14
Payment of cash dividends	(2,476)	(3,665)
Payment of note payable-related party	(500)	-
Payments of short-term bank loans	-	(25)
Net cash used in financing activities	(1,795)	(3,602)
Effect of exchange rate changes on cash	(4,284)	2,806
Net decrease in cash	(7,252)	(81)
Cash at beginning of period	46,515	32,320
Cash at end of period	\$ 39,263	\$ 32,239

See accompanying notes to condensed consolidated financial statements and accountants' review report.

ACETO CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited and in thousands, except per-share amounts)

(1) Basis of Presentation

The condensed consolidated financial statements of Aceto Corporation and subsidiaries (“Aceto” or the “Company”) included herein have been prepared by the Company and reflect all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented. Interim results are not necessarily indicative of results which may be achieved for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. The Company’s most critical accounting policies relate to revenue recognition; allowance for doubtful accounts; inventories; goodwill and other indefinite-lived intangible assets; long-lived assets; environmental and other contingencies; income taxes; and stock-based compensation.

These condensed consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. Accordingly, these statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto contained in the Company’s Form 10-K for the year ended June 30, 2008.

(2) Goodwill and Other Intangible Assets

Goodwill of \$1,801 and \$1,987 as of March 31, 2009 and June 30, 2008, relates to the Health Sciences Segment.

Changes in goodwill are attributable to changes in foreign currency exchange rates used to translate the financial statements of foreign subsidiaries with respect to the Health Sciences Segment.

(3) Stock-Based Compensation

The Company accounts for share-based compensation cost in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), “Share-Based Payment.”

In December 2008, the Company granted 222 options to employees at an exercise price equal to the market value of the common stock on the date of grant. These options vest over one year and will expire ten years from the date of grant. Compensation expense of \$724, as determined using the Black-Scholes option pricing model, will be charged over the vesting period for these options. In December 2007, the Company granted 239 options to non-employee directors and employees at an exercise price equal to the market value of the common stock on the date of grant. These options vest over one year and will expire ten years from the date of grant. Total compensation expense related to stock options for the nine months ended March 31, 2009 and 2008 was \$545 and \$364, respectively and \$180 and \$184 for the three months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, the total unrecognized compensation cost related to option awards is \$480.

In order to determine the fair value of stock options on the date of grant, the Company uses the Black-Scholes option-pricing model, including an estimate of forfeiture rates. Inherent in this model are assumptions related to expected stock-price volatility, risk-free interest rate, expected life and dividend yield. Expected stock-price volatility

is based on the historical daily price changes of the underlying stock which are obtained from public data sources. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The fair values of the options granted were estimated based on the following weighted average assumptions:

7

ACETO CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited and in thousands, except per-share amounts)

	Nine months ended March 31,	
	2009	2008
Expected life	5.6 years	5.6 years
Expected volatility	48.0%	46.0%
Risk-free interest rate	2.42%	3.55%
Dividend yield	2.32%	2.50%

In December 2008, the Company granted 97 shares of restricted common stock and 23 restricted stock units. These shares of restricted common stock and restricted stock units vest over three years.

In accordance with SFAS No. 123(R), the Company granted 41 shares of restricted common stock and 3 restricted stock units in September 2008, whereby the service inception date, which occurred in fiscal 2008, preceded the grant date, which was in fiscal 2009. Since these shares of restricted common stock and restricted stock units were issued in fiscal 2009, the Company recorded a liability as of June 30, 2008 for such awards. In December 2007, the Company granted 86 shares of restricted common stock and 20 restricted stock units.

In addition, in accordance with SFAS No. 123(R), compensation expense is recognized on a straight-line basis over the employee's vesting period or to the employee's retirement eligibility date, if earlier, for restricted stock awards. For the three and nine months ended March 31, 2009, the Company recorded stock-based compensation expense of approximately \$161 and \$582, respectively, related to restricted common stock and restricted stock units, of which \$246 of compensation expense related to retiree eligibility for the nine months ended March 31, 2009. As of March 31, 2009, the total unrecognized compensation cost related to restricted stock awards is \$1,002. For the three and nine months ended March 31, 2008, the Company recorded stock-based compensation expense of approximately \$64 and \$263, respectively, for shares of restricted common stock and restricted stock units.

The Company's policy is to satisfy stock-based compensation awards with treasury shares, to the extent available.

(4) Common Stock

On May 7, 2009, the Company's board of directors declared a regular semi-annual cash dividend of \$0.10 per share to be distributed on June 26, 2009 to shareholders of record as of June 15, 2009.

On December 4, 2008, the Company's board of directors declared a regular semi-annual cash dividend of \$0.10 per share which was paid on January 13, 2009 to shareholders of record on December 19, 2008.

(5) Net Income Per Common Share

Basic income per common share is based on the weighted average number of common shares outstanding during the period. Diluted income per common share includes the dilutive effect of potential common shares outstanding. The following table sets forth the reconciliation of weighted average shares outstanding and diluted weighted average shares outstanding:

Nine months ended	Three months ended
-------------------	--------------------

Edgar Filing: ACETO CORP - Form 10-Q

	March 31,		March 31,	
	2009	2008	2009	2008
Weighted average shares outstanding	24,457	24,344	24,569	24,348
Dilutive effect of stock options and restricted stock awards and units	519	462	483	397
Diluted weighted average shares outstanding	24,976	24,806	25,052	24,745

8

ACETO CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited and in thousands, except per-share amounts)

There were 1,607 and 1,465 common equivalent shares outstanding as of March 31, 2009 and 2008, respectively, that were not included in the calculation of diluted income per common share for the nine months ended March 31, 2009 and 2008, respectively, because their effect would have been anti-dilutive. There were 1,880 and 1,763 common shares outstanding as of March 31, 2009 and 2008, respectively, that were not included in the calculation of diluted income per common share for the three months ended March 31, 2009 and 2008, respectively, because their effect would have been anti-dilutive.

(6) Comprehensive Income

Comprehensive income (loss) consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income. The components of comprehensive income (loss) were as follows:

	Nine months ended March 31,		Three months ended March 31,	
	2009	2008	2009	2008
Comprehensive income (loss):				
Net income	\$ 7,578	\$ 5,496	\$ 1,935	\$ 3,294
Foreign currency translation adjustment	(8,644)	6,512	(3,185)	2,462
Unrealized gain on available for sale securities	-	42	-	5
Change in fair value of cross currency interest rate swaps	-	(20)	-	(32)
Total	\$ (1,066)	\$ 12,030	\$ (1,250)	\$ 5,729

The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation." Where the functional currency of a foreign subsidiary is its local currency, balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the period. Exchange gains or losses resulting from the translation of financial statements of foreign operations are accumulated in other comprehensive income. Where the local currency of a foreign subsidiary is not its functional currency, financial statements are translated at either current or historical exchange rates, as appropriate. The foreign currency translation adjustment for the three and nine months ended March 31, 2009 primarily relates to the fluctuation of the conversion rate of the Euro. The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-US subsidiaries.

(7) Income Taxes

The decrease in the net deferred income tax assets of \$972 for the nine months ended March 31, 2009, when compared to June 30, 2008, related to the reduction of taxes payable due to the utilization of foreign net operating loss carryforwards.

The decrease in the net deferred income tax assets of \$1,297 for the nine months ended March 31, 2008 related primarily to German tax reform which was enacted in August 2007 that reduced the German corporate headline tax rate for businesses from 40% to 30%, as well as implementing a cap on interest deductions and tightening the tax basis for trade tax income. This tax rate reduction became effective for tax years ending after January 1, 2008. Due to the

reduction in the overall German tax rate, the deferred income tax asset was revalued during the month of enactment of the tax reform, which was in the first quarter of fiscal 2008, and therefore was reduced by approximately \$1,429, which is reflected in the condensed consolidated financial statements for the nine months ended March 31, 2008.

ACETO CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited and in thousands, except per-share amounts)

(8) Commitments and Contingencies

The Company and its subsidiaries are subject to various claims which have arisen in the normal course of business. The impact of the final resolution of these matters on the Company's results of operations in a particular reporting period is not known. Management is of the opinion, however, that the ultimate outcome of such matters will not have a material adverse effect upon the Company's financial condition or liquidity.

In fiscal years 2009, 2008 and 2007, the Company received letters from the Pulvair Site Group, a group of potentially responsible parties (PRP Group) who are working with the State of Tennessee (the State) to remediate a contaminated property in Tennessee called the Pulvair site. The PRP Group has alleged that Aceto shipped hazardous substances to the site which were released into the environment. The State had begun administrative proceedings against the members of the PRP Group and Aceto with respect to the cleanup of the Pulvair site and the group has begun to undertake cleanup. The PRP Group is seeking a settlement of approximately \$1,700 from the Company for its share to remediate the site contamination. Although the Company acknowledges that it shipped materials to the site for formulation over twenty years ago, the Company believes that the evidence does not show that the hazardous materials sent by Aceto to the site have significantly contributed to the contamination of the environment and thus believes that, at most, it is a de minimus contributor to the site contamination. Accordingly, the Company believes that the settlement offer is unreasonable. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not known. However, management believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

The Company has environmental remediation obligations in connection with Arsynco's former manufacturing facility located in Carlstadt, New Jersey, which was closed in 1993 and is currently held for sale. Estimates of how much it would cost to remediate environmental contamination at this site have increased since the facility was closed in 1993. During fiscal 2008, based on continued monitoring of the contamination at the site and the current proposed plan of remediation, the Company received an estimate from an environmental consultant stating that the costs of remediation could be between \$7,846 and \$9,574. As of March 31, 2009 and June 30, 2008, a liability of \$7,846 is included in the accompanying condensed consolidated balance sheets. The estimated cost of remediation is based upon a current proposed remedial action work plan; however, if this work plan is revised or not approved by either the State of New Jersey or the EPA, actual costs could be significantly greater than the current estimate. If this matter is resolved in a manner different from those assumed in current estimates, the resolution could have a material adverse effect on the Company's financial condition, operating results and cash flows.

In connection with the environmental remediation obligation for Arsynco, the Company has asserted a claim against BASF Corporation (BASF), the former owners of the Arsynco property. The Company alleges that BASF is liable for a portion of the cost to remediate. Settlement discussions with BASF are on-going; however, since collection from BASF is uncertain at this time, no asset has been recorded.

In March 2006, Arsynco received notice from the EPA of its status as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for a site described as the Berry's Creek Study Area. Arsynco is one of over 150 PRPs which have potential liability for the required investigation and remediation of the site. The estimate of the potential liability is not quantifiable for a number of reasons, including the difficulty in determining the extent of contamination and the length of time remediation may require. In addition, any estimate of liability must also consider the number of other PRPs and their financial strength. Based on prior practice in similar situations, it is possible that the State may assert a claim for natural resource damages with respect to the Arsynco site itself, and

either the federal government or the State (or both) may assert claims against Arsynco for natural resource damages in connection with Berry's Creek; any such claim with respect to Berry's Creek could also be asserted against the approximately 150 PRPs which the EPA has identified in connection with that site. Any claim for natural resource damages with respect to the Arsynco site itself may also be asserted against BASF, the former owners of the Arsynco property. Since an amount of the liability cannot be reasonably estimated at this time, no accrual is recorded for these potential future costs. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not known. However, management believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

ACETO CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited and in thousands, except per-share amounts)

A subsidiary of the Company markets certain agricultural chemicals which are subject to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). FIFRA requires that test data be provided to the EPA to register, obtain and maintain approved labels for pesticide products. The EPA requires that follow-on registrants of these products compensate the initial registrant for the cost of producing the necessary test data on a basis prescribed in the FIFRA regulations. Follow-on registrants do not themselves generate or contract for the data. However, when FIFRA requirements mandate that new test data be generated to enable all registrants to continue marketing a pesticide product, often both the initial and follow-on registrants establish a task force to jointly undertake the testing effort. The Company is presently a member of several such task force groups and historically, our payments have been in the range of \$100 - \$250 per year. The Company may be required to make additional payments in the future. In addition, in connection with our crop protection business, the Company plans to acquire product registrations and related data filed with the United States Environmental Protection Agency to support such registrations and other supporting data for four products. The acquisition of these product registrations and related data filed with the United States Environmental Protection Agency as well as payments to various task force groups could approximate \$9,700 over the next five quarters.

In June 2006, the Company negotiated a lease termination with its landlord for the facility previously occupied by CDC and Magnum. In connection with the lease termination, the landlord and a third party entered into a long-term lease for which the Company guaranteed the rental payments by the third party through September 30, 2009. As of March 31, 2009 and June 30, 2008, the aggregate future rental payments of the third party that are guaranteed by the Company are \$154 and \$382, respectively, and the fair value of this guarantee is deemed to be insignificant.

Commercial letters of credit are issued by the Company in the ordinary course of business through major domestic banks as requested by certain suppliers. The Company had open letters of credit of approximately \$13 and \$663 as of March 31, 2009 and June 30, 2008, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to non-performance by the counterparties to these agreements.

(9) Fair Value Measurements

The Company adopted SFAS No. 157, "Fair Value Measurements" (SFAS No. 157) on July 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. The adoption of SFAS No. 157 did not have any impact on the Company's condensed consolidated financial statements. SFAS No. 157 establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable; and
- Level 3 – Unobservable inputs that are not corroborated by market data.

On a recurring basis, Aceto measures at fair value certain financial assets and liabilities, which consist of cash equivalents, investments and foreign currency contracts. The Company classifies cash equivalents and investments within Level 1 if quoted prices are available in active markets. Level 1 assets include instruments valued based on quoted market prices in active markets which generally include corporate equity securities publicly traded on major exchanges. Time deposits are very short-term in nature and are accordingly valued at cost plus accrued interest, which

approximates fair value, and are classified within Level 2 of the valuation hierarchy. The Company uses foreign currency forward contracts (futures) to minimize the risk caused by foreign currency fluctuation on its foreign currency receivables and payables by purchasing futures with one of its financial institutions. Futures are traded on regulated U.S. and international exchanges and represent commitments to purchase or sell a particular foreign currency at a future date and at a specific price. Aceto's foreign currency derivative contracts are classified within Level 2 as the fair value of these hedges is primarily based on observable forward foreign exchange rates. At March 31, 2009, the Company had foreign currency contracts outstanding that had a notional amount of \$33,049. Unrealized gains on hedging activities for the nine months ended March 31, 2009 and 2008 was \$251 and \$160, respectively, and are included in interest and other income, net, in the condensed consolidated statements of income. The contracts have varying maturities of less than one year.

ACETO CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited and in thousands, except per-share amounts)

The following table summarizes the valuation of the Company's investments and the financial instruments which were determined by using the following inputs at March 31, 2009:

	Fair Value Measurements at March 31, 2009 Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable inputs (Level 3)	
Cash equivalents:				
Time deposits	-	\$ 10,281	-	\$ 10,281
Investments:				
Trading securities	\$ 294	-	-	294
Time deposits	-	193	-	193
Foreign currency contracts-assets (1)	-	478	-	478
Foreign currency contracts-liabilities (2)	-	223	-	223

- (1) Included in "Other receivables" in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2009.
- (2) Included in "Accrued expenses" in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2009.

The Company did not hold financial assets and liabilities which were recorded at fair value in the Level 3 category as of March 31, 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 allows companies the choice to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to adopt the fair value option under SFAS 159 for its existing instruments.

(10) Recent Accounting Pronouncements

Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF No. 06-11) became effective in the first quarter of 2009. EITF No. 06-11 requires that the tax benefit received on dividends associated with share-based awards that are charged to retained earnings should be recorded in additional paid-in-capital (APIC) and included in the APIC pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. The adoption of EITF No. 06-11 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No 51" (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent's ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent's ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt these new requirements in its first quarter of fiscal 2010. The adoption of this statement will impact the manner in which the Company presents noncontrolling interests, but will not impact its consolidated financial position or results of operations.

ACETO CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited and in thousands, except per-share amounts)

In December 2007, the FASB approved the issuance of SFAS No. 141 (revised 2007) "Business Combinations" (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions for SFAS No. 141R are effective for fiscal years beginning after December 15, 2008 and are applied prospectively to business combinations completed on or after that date. Early adoption is not permitted. SFAS No. 141R is effective for the Company beginning in the first quarter of fiscal 2010. The Company is evaluating the impact of SFAS No. 141R on its results of operations and financial condition.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently assessing the impact of SFAS No. 157 on its condensed consolidated financial statements for items within the scope of FSP 157-2, which will become effective beginning with our first quarter of fiscal 2010.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities— An Amendment of FASB Statement No. 133" (SFAS No. 161). SFAS No. 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 became effective in the third quarter of 2009. The adoption of SFAS No. 161 did not have a material impact on the Company's consolidated financial statements.

In June 2008, the FASB issued Staff Position EITF No. 03-06-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-06-1). FSP EITF 03-06-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in SFAS No. 128, "Earnings per Share". The Company will adopt FSP EITF 03-06-1 effective July 1, 2009. The Company is currently assessing the impact of FSP EITF 03-06-1 on its consolidated financial statements.

(11) Segment Information

The Company's business is organized along product lines into three principal segments: Health Sciences, Chemicals & Colorants and Crop Protection.

Health Sciences - includes the active ingredients for generic pharmaceuticals, vitamins, and nutritional supplements, as well as products used in preparing pharmaceuticals, primarily by major innovative drug companies, and biopharmaceuticals.

Chemicals & Colorants - includes a variety of specialty chemicals used in plastics, resins, adhesives, coatings, food, flavor additives, fragrances, cosmetics, metal finishing, electronics, air-conditioning systems and many other areas. Dye and pigment intermediates are used in the color-producing industries such as textiles, inks, paper, and coatings.

Organic intermediates are used in the production of agrochemicals.

13

ACETO CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited and in thousands, except per-share amounts)

Crop Protection - includes herbicides, fungicides and insecticides that control weed growth as well as control the spread of insects and other microorganisms that can severely damage plant growth. The Crop Protection segment also includes a sprout inhibitor for potatoes and an herbicide for sugar cane.

The Company's chief operating decision maker evaluates performance of the segments based on net sales and gross profit. The Company does not allocate assets by segment because the chief operating decision maker does not review the assets by segment to assess the segments' performance, as the assets are managed on an entity-wide basis.

Nine Months Ended March 31, 2009 and 2008:

	Health Sciences	Chemicals & Colorants	Crop Protection	Consolidated Totals
2009				
Net sales	\$ 143,863	\$ 91,236	\$ 12,755	\$ 247,854
Gross profit	27,614	13,088	3,235	43,937
2008				
Net sales	\$ 148,522	\$ 94,036	\$ 12,330	\$ 254,888
Gross profit	27,420	13,323	2,342	43,085

Three Months Ended March 31, 2009 and 2008:

	Health Sciences	Chemicals & Colorants	Crop Protection	Consolidated Totals
2009				
Net sales	\$ 44,549	\$ 29,410	\$ 5,841	\$ 79,800
Gross profit	7,071	4,388	1,796	13,255
2008				
Net sales	\$ 58,199	\$ 35,871	\$ 4,185	\$ 98,255
Gross profit	9,963	5,336	744	16,043

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Aceto Corporation

We have reviewed the condensed consolidated balance sheet of Aceto Corporation and subsidiaries as of March 31, 2009 and the related condensed consolidated statements of income for the three-month and nine-month periods ended March 31, 2009 and 2008, and the related condensed consolidated statements of cash flows for the nine-month periods ended March 31, 2009 and 2008 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended March 31, 2009. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Aceto Corporation and subsidiaries as of June 30, 2008, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated September 4, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BDO SEIDMAN, LLP

Melville, New York
May 7, 2009

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

CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q and the information incorporated by reference includes “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates and projections about our industry and our business. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, unforeseen environmental liabilities, international military conflicts, the mix of products sold and their profit margins, order cancellation or a reduction in orders from customers, competitive product offerings and pricing actions, the availability and pricing of key raw materials, dependence on key members of management, continued successful integration of acquisitions, receipt of regulatory approvals, risks of entering into new European markets, and economic and political conditions in the United States and abroad. We undertake no obligation to update any such forward-looking statements, other than as required by law.

NOTE REGARDING DOLLAR AMOUNTS

In this quarterly report, all dollar amounts are expressed in thousands, except for share prices and per-share amounts.

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide the readers of our financial statements with a narrative discussion about our business. The MD&A is provided as a supplement to and should be read in conjunction with our financial statements and the accompanying notes.

Executive Summary

Our third quarter and nine month results were impacted by the economic environment that we operate in, which continues to be quite turbulent. According to a recent Federal Reserve statistical release, in March 2009, domestic manufacturing output decreased 1.7%, and, for the quarter ended March 31, 2009, domestic manufacturing output dropped at an annual rate of 22.5%.

We are reporting net sales of \$247,854 for the nine months ended March 31, 2009, which represents a 2.8% decrease from the \$254,888 reported in the comparable prior period. Gross profit for the nine months ended March 31, 2009 was \$43,937 and our gross margin was 17.7% as compared to gross profit of \$43,085 and gross margin of 16.9% in the comparable prior period. Our selling, general and administrative costs for the nine months ended March 31, 2009 was relatively flat at \$32,921, when compared to \$32,924 we reported in the prior period. Our net income increased to \$7,578, or \$0.30 per diluted share, compared to \$5,496, or \$0.22 per diluted share in the prior period.

Our financial position as of March 31, 2009 remains strong, as we had cash and cash equivalents and short-term investments of \$39,750, working capital of \$130,001, no long-term debt and shareholders’ equity of \$139,555.

Our ongoing business is separated into three segments: Health Sciences, Chemicals & Colorants and Crop Protection.

The Health Sciences segment is our largest segment in terms of both sales and gross profits. Products that fall within this segment include active pharmaceutical ingredients (APIs), pharmaceutical intermediates, nutritionals and biopharmaceuticals.

We typically partner with both customers and suppliers years in advance of a drug coming off patent to provide the generic equivalent. We believe we have a pipeline of new APIs poised to reach commercial levels over the coming years as the patents on existing drugs expire, both in the United States and Europe. In addition, we continue to explore opportunities to provide a second-source option for existing generic drugs with approved abbreviated new drug applications (ANDAs). The opportunities that we are looking for are to supply the APIs for the more mature generic drugs where pricing has stabilized following the dramatic decreases in price that these drugs experienced after coming off patent. As is the case in the generic industry, the entrance into the market of other generic competition generally has a negative impact on the pricing of the affected products. According to a Generic Pharmaceutical Association's, April 2009 press release, generic drug prices decreased by an average of 10.6% during 2008. By leveraging our worldwide sourcing, quality assurance and regulatory capabilities, we believe we can be an alternative lower cost, second-source provider of existing APIs to generic drug companies.

The Chemicals & Colorants segment is a major supplier to the many different industries that require outstanding performance from chemical raw materials and additives. Products that fall within this segment include intermediates for dyes, pigments and agrochemicals. We provide chemicals used to make plastics, surface coatings, textiles, lubricants, flavors and fragrances. Many of our raw materials are also used in high-tech products like high-end electronic parts (circuit boards and computer chips) and binders for specialized rocket fuels. We are currently responding to the changing needs of our customers in the color producing industry by taking our resources and knowledge downstream as a supplier of select organic pigments. According to the Federal Reserve statistical release described above, the production index for durable goods contracted at an annual rate of more than 30% for the quarter ended March 31, 2009.

The Crop Protection segment sells herbicides, fungicides, insecticides, and other agricultural chemicals to customers, primarily located in the United States and Western Europe. In the fiscal 2009 second quarter, we received our EPA registration for Halosulfuron, a herbicide used to control sedge on rice, vegetables and turf and ornamental grasses. In our fiscal 2009 third quarter, we began selling Halosulfuron for the current growing season. In addition, we have three products that we have already filed with the EPA for registrations and several other products in various stages of review. Our plan is to continue to develop this pipeline and bring to market additional products in a similar manner. In May 2008, we sold an insecticide product to its patent owner in conjunction with litigation settlement involving an expired license.

Our main business strengths are sourcing, quality assurance, regulatory support, marketing and distribution. In fiscal 2009, we are developing an industrial brand for Aceto called "Enabling Quality Worldwide" and are marketing this brand globally. With a physical presence in ten countries, we distribute over 1000 pharmaceuticals and chemicals used principally as raw materials in the pharmaceutical, agricultural, color, surface coating/ink and general chemical consuming industries. We believe that we are currently the largest buyer of pharmaceutical and specialty chemicals for export from China, purchasing from over 500 different manufacturers.

In this MD&A section, we explain our general financial condition and results of operations, including the following:

- factors that affect our business
- our earnings and costs in the periods presented
- changes in earnings and costs between periods
- sources of earnings
- the impact of these factors on our overall financial condition

As you read this MD&A section, refer to the accompanying condensed consolidated statements of income, which present the results of our operations for the three and nine months ended March 31, 2009 and 2008. We analyze and explain the differences between periods in the specific line items of the condensed consolidated statements of income.

Critical Accounting Estimates and Policies

As disclosed in our Form 10-K for the year ended June 30, 2008, the discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. In preparing these financial statements, we were required to make estimates and assumptions relating to critical accounting estimates and policies that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We regularly evaluate our estimates including those related to allowances for bad debts, inventories, goodwill and other indefinite-lived intangible assets, long-lived assets, environmental and other contingencies, income taxes and stock-based compensation. We base our estimates on various factors, including historical experience, advice from outside subject-matter experts, and various assumptions that we believe to be reasonable under the circumstances, which together form the basis for our making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Since June 30, 2008, there have been no significant changes to the assumptions and estimates related to those critical accounting estimates and policies.

RESULTS OF OPERATIONS

Nine Months Ended March 31, 2009 Compared to Nine Months Ended March 31, 2008

Net Sales by Segment
Nine months ended March 31,

Segment	2009		2008		Comparison 2009 Over/(Under) 2008	
	Net sales	% of total	Net sales	% of total	\$ change	% change
Health Sciences	\$ 143,863	58.0%	\$ 148,522	58.3%	\$ (4,659)	(3.1%)
Chemicals & Colorants	91,236	36.8	94,036	36.9	(2,800)	(3.0)
Crop Protection	12,755	5.2	12,330	4.8	425	3.4
Net sales	\$ 247,854	100.0%	\$ 254,888	100.0%	\$ (7,034)	(2.8%)

Gross Profit by Segment
Nine months ended March 31,

Segment	2009		2008		Comparison 2009 Over/(Under) 2008	
	Gross Profit	% of sales	Gross Profit	% of sales	\$ change	% Change
Health Sciences	\$ 27,614	19.2%	\$ 27,420	18.5%	\$ 194	0.7%
Chemicals & Colorants	13,088	14.3	13,323	14.2	(235)	(1.8)
Crop Protection	3,235	25.4	2,342	19.0	893	38.1
Gross Profit	\$ 43,937	17.7%	\$ 43,085	16.9%	\$ 852	2.0%

Net Sales

Net sales decreased \$7,034, or 2.8%, to \$247,854 for the nine months ended March 31, 2009, compared with \$254,888 for the prior period. We reported sales decreases in our Health Sciences and Chemicals & Colorants segments which were partially offset by a sales increase in our Crop Protection segment, as explained below.

Health Sciences

Net sales for the Health Sciences segment decreased by \$4,659 for the nine months ended March 31, 2009, to \$143,863, which represents a 3.1% decrease from net sales of \$148,522 for the prior period. This decrease is due to various factors including decreased sales from our foreign operations of \$3,811, specifically our European and Singapore operations and a \$3,676 decline in sales of domestic pharmaceutical intermediates, which represent key components used in the manufacture of certain drug products. The overall decrease in sales for the Health Sciences segment is offset, in part, by an increase in sales of \$3,113 of our domestic nutraceutical products, which represent raw materials used in the production of nutritional supplements.

Chemicals & Colorants

Net sales for the Chemicals & Colorants segment decreased by \$2,800 for the nine months ended March 31, 2009, to \$91,236, which represents a 3.0% decline from net sales of \$94,036 for the prior period. Our chemical business is diverse in terms of products, customers and consuming markets and is directly impacted by the current economic recession. The decrease in sales from this segment is attributable to decreased sales of \$3,006 in chemicals used in aroma products, a decline of \$1,228 in sales of color pigments, and a \$1,428 drop in chemicals used to produce surface coatings. These decreases are partially offset by an increase of \$1,208 in sales of polymer additives and a \$1,180 increase in sales of chemicals utilized in the food, beverage and cosmetic industries.

Crop Protection

Net sales for the Crop Protection segment increased to \$12,755 for the nine months ended March 31, 2009, an increase of \$425, or 3.4%, from net sales of \$12,330 for the prior period. The increase over the prior period is attributed to the launch of Halosulfuron, a herbicide used to control sedge on rice, vegetables and turf and ornamental grasses and an increase in sales of Asulam, a herbicide used on sugar cane. The increase in Crop Protection sales is partially offset by decreased sales of our sprout inhibitor products, which are utilized on potato crops, as well as an insecticide in which we were involved in an antitrust case related to certain licensed technology. In May 2008, we sold this insecticide product to its patent owner in conjunction with litigation settlement involving an expired license.

Gross Profit

Gross profit increased \$852 to \$43,937 (17.7% of net sales) for the nine months ended March 31, 2009, as compared to \$43,085 (16.9% of net sales) for the prior period.

Health Sciences

Health Sciences' gross profit of \$27,614 for the nine months ended March 31, 2009 was relatively consistent to the \$27,420 of gross profit in the prior period. Gross profit for the domestic pharmaceutical intermediates declined by \$337, offset in part, by an increase of \$118 in gross profit in our foreign operations, particular in our Shanghai operations.

Chemicals & Colorants

Gross profit for the nine months ended March 31, 2009 decreased by \$235, or 1.8%, over the prior period. The gross margin was up slightly at 14.3% for the nine months ended March 31, 2009 compared to 14.2% for the prior period. The decrease in the gross profit primarily relates to overall decrease in sales volume as well as unfavorable price mix on sales in our foreign operations.

Crop Protection

Gross profit for the Crop Protection segment increased to \$3,235 for the nine months ended March 31, 2009, versus \$2,342 for the prior period, an increase of \$893 or 38.1%. This increase primarily relates to Halosulfuron, in which the Company first commenced sales on this product in the third quarter of 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) remained relatively flat at \$32,921 for the nine months ended March 31, 2009 compared to \$32,924 for the prior period. As a percentage of sales, SG&A increased to 13.3% for the nine months ended March 31, 2009 versus 12.9% for the prior period. SG&A experienced an increase of \$1,101 in personnel related costs, of which \$363 relates to our foreign operations and \$738 relates to various factors including annual salary increases and stock-based compensation. We also incurred higher bad debt expense of \$501 as a result of additional reserves. These increases in SG&A are offset by a decline of \$1,488 in legal costs from the prior period for which there is no comparable amount in the current period. These legal costs in the prior period related to an antitrust case that we previously commenced against the owner of certain licensed technology used with one of our crop protection products, which was settled in May 2008.

Research and Development Expenses

Research and development expenses (R&D) decreased \$479 over the prior period to \$153 for the nine months ended March 31, 2009 due to the abandonment of R&D related to two finished dosage form generic pharmaceutical products that were to be distributed in Europe.

Operating Income

For the nine months ended March 31, 2009, operating income was \$10,863 compared to \$9,529 in the prior period, an increase of \$1,334 or 14.0%. This increase was due to the overall increase in gross profit of \$852 and to a \$482 decline in R&D expenses and SG&A

Interest and Other Income, Net

Interest and other income, net was \$465 for the nine months ended March 31, 2009, which represents a decrease of \$131 over the prior period mainly due to an increase in foreign exchange losses and unrealized losses on trading securities, partly offset by income from a joint venture.

Provision for Income Taxes

The effective tax rate for the nine months ended March 31, 2009 decreased to 32.7% from 45.4% for the prior period. The decrease in the effective tax rate was primarily due to German tax reform, which was enacted in August 2007, that reduced the German corporate headline tax rate for businesses from 40% to 30%, as well as implementing a cap on interest deductions and tightening the tax basis for trade tax income. This tax rate reduction became effective for tax years ending after January 1, 2008. Due to the future reduction in the overall German tax rate, the deferred income tax asset was revalued during the month of enactment of the tax reform, which was in the first quarter of fiscal 2008, and therefore was reduced by approximately \$1,429. The decrease in the effective tax rate from the prior period is partially offset by charges, including an approximate \$295 tax charge related to the anticipated repatriation of earnings from certain foreign subsidiaries. Without these charges, we expect the fiscal 2009 effective tax rate to be 29.0%. At this time, we do not expect any further repatriation of earnings from our foreign subsidiaries.

Edgar Filing: ACETO CORP - Form 10-Q

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Net Sales by Segment
Three months ended March 31,

Segment	2009		2008		Comparison 2009 Over/(Under) 2008	
	Net sales	% of total	Net sales	% of total	\$ change	% change
Health Sciences	\$ 44,549	55.8%	\$ 58,199	59.2%	\$ (13,650)	(23.5%)
Chemicals & Colorants	29,410	36.9	35,871	36.5	(6,461)	(18.0)
Crop Protection	5,841	7.3	4,185	4.3	1,656	39.6
Net sales	\$ 79,800	100.0%	\$ 98,255	100.0%	\$ (18,455)	(18.8%)

Gross Profit by Segment
Three months ended March 31,

Segment	2009		2008		Comparison 2009 Over/(Under) 2008	
	Gross profit	% of sales	Gross profit	% of sales	\$ change	% change
Health Sciences	\$ 7,071	15.9%	\$ 9,963	17.1%	\$ (2,892)	(29.0%)
Chemicals & Colorants	4,388	14.9	5,336	14.9	(948)	(17.8)
Crop Protection	1,796	30.7	744	17.8	1,052	141.4
Gross profit	\$ 13,255	16.6%	\$ 16,043	16.3%	\$ (2,788)	(17.4%)

Net Sales

Net sales decreased \$18,455, or 18.8%, to \$79,800 for the three months ended March 31, 2009, compared with \$98,255 for the prior period. We reported sales decreases in our Health Sciences and Chemicals & Colorants segments which were partially offset by a sales increase in our Crop Protection segment, as explained below.

Health Sciences

Net sales for the Health Sciences segment decreased by \$13,650 for the three months ended March 31, 2009, to \$44,549, which represents a 23.5% decrease from net sales of \$58,199 for the prior period. This decrease is partially due to a decline of \$2,338 in sales of our domestic pharmaceutical intermediates. Sales in our domestic generics product group decreased by \$3,614, as well as our foreign operations, especially Europe, experienced a drop in sales of \$8,218. As previously mentioned, sale prices of generic drugs have decreased on average 10.6% in calendar 2008. In addition, we saw a decline in reorders of existing products. We expect this difficult market to continue into the upcoming months.

Chemicals & Colorants

Net sales for the Chemicals & Colorants segment were \$29,410 for the three months ended March 31, 2009, a decrease of \$6,461 from net sales of \$35,871 for the prior period. Our chemical business consists of a variety of

products, customers and consuming markets, most of which were negatively affected by the difficult economic conditions. The decrease of 18.0%, over the prior period is consistent with the overall difficult market conditions we are facing. The decrease is partially attributable to a decrease in sales into the surface coatings industry of \$3,666 and a decline of \$587 in sales of color pigments. Sales of chemicals used in aroma products also decreased by \$2,034 due to reduced demand.

Crop Protection

Net sales for the Crop Protection segment increased to \$5,841 for the three months ended March 31, 2009, an increase of \$1,656, or 39.6%, from net sales of \$4,185 for the prior period. The increase over the prior period is attributed to the launch of Halosulfuron, a herbicide used to control sedge on rice, vegetables and turf and ornamental grasses and an increase in sales of Asulam, a herbicide used on sugar cane. The increase in Crop Protection sales is partially offset by decreased sales of our sprout inhibitor products, related to the overall potato acreage which is down in the United States and Europe, as well as an insecticide in which we were involved in an antitrust case related to certain licensed technology. In May 2008, we sold this insecticide product to its patent owner in conjunction with litigation settlement involving an expired license.

Gross Profit

Gross profit decreased to \$13,255 (16.6% of net sales) for the three months ended March 31, 2009, as compared to \$16,043 (16.3% of net sales) for the prior period.

Health Sciences

Gross profit for the three months ended March 31, 2009 decreased by \$2,892, or 29.0%, over the prior period. The gross margin declined to 15.9% for the three months ended March 31, 2009 compared to 17.1% for the prior period. The decrease in gross profit was attributable to the overall decline in sales volume and the decrease in gross margin primarily related to unfavorable product mix on our domestic pharmaceutical intermediates.

Chemicals & Colorants

Chemicals and Colorants' gross profit of \$4,388 for the three months ended March 31, 2009 was \$948 or 17.8% lower than the prior period. The gross margin at 14.9% for the three months ended March 31, 2009 was consistent to the gross margin for the prior period. The decrease in the gross profit is due to primarily sales volume decline in our domestic operations.

Crop Protection

Gross profit for the Crop Protection segment increased to \$1,796 for the three months ended March 31, 2009, versus \$744 for the prior period, an increase of \$1,052 or 141.4%. Gross margin for the quarter also increased to 30.7% compared to the prior period gross margin of 17.8%. The increase in the gross profit and gross margin percentage primarily relates to Halosulfuron, in which the Company first commenced sales of this product in the third quarter of 2009.

Selling, General and Administrative Expenses

SG&A decreased \$1,102 or 9.5%, to \$10,458 for the three months ended March 31, 2009 compared to \$11,560 for the prior period. As a percentage of sales, SG&A increased to 13.1% for the three months ended March 31, 2009 versus 11.8% for the prior period. The decrease in SG&A relates primarily to a decline of \$614 in personnel related costs due primarily to decreased accrued bonus expense as a result of decreased profitability. SG&A also decreased due to a \$262 drop in sales and marketing expenses, which is directly related to the decline in sales for the third quarter.

Research and Development Expenses

R&D decreased \$279 over the prior period for the three months ended March 31, 2009 due to the abandonment of R&D related to two finished dosage form generic pharmaceutical products that were to be distributed in Europe.

Operating Income

For the three months ended March 31, 2009, operating income was \$2,797 compared to \$4,204 in the prior period, a decrease of \$1,407 or 33.5%. This decrease was due to the overall decrease in gross profit of \$2,788 offset by the \$1,102 decrease in SG&A and \$279 decline in R&D expenses.

Interest and Other (Expense) Income, Net

Interest and other (expense) income, net was (\$263) for the three months ended March 31, 2009, which represents an increase of \$873 in expense over the \$610 of income in the prior period mainly due to an increase in foreign exchange losses, partly offset by income from a joint venture.

Provision for Income Taxes

The effective tax rate for the three months ended March 31, 2009 decreased to 23.5%, from 31.1% for the prior period. The decrease in the effective tax rate was primarily due to decreased earnings in domestic tax jurisdictions with higher tax rates.

Liquidity and Capital Resources

Cash Flows

At March 31, 2009, we had \$39,263 in cash and cash equivalents, of which \$31,255 was outside the United States, \$487 in short-term investments and no outstanding bank loans. Working capital was \$130,001 at March 31, 2009 versus \$128,786 at June 30, 2008. The \$31,255 of cash held outside of the United States is fully accessible to meet any liquidity needs of the countries in which Aceto operates. The majority of the cash located outside of the United States is held by our European operations and can be transferred into the United States. Although these amounts are fully accessible, transferring these amounts into the United States or any other countries could have certain tax consequences. A deferred tax liability will be recognized when we expect that we will recover undistributed earnings of our foreign subsidiaries in a taxable manner, such as through receipt of dividends or sale of the investments. A portion of our cash is held in operating accounts that are with third party financial institutions. These balances exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to cash in our operating accounts.

Our cash position at March 31, 2009 decreased \$7,252 from the amount at June 30, 2008. Operating activities for the nine months ended March 31, 2009 used cash of \$579, for this period, as compared to cash provided by operations of \$167 for the comparable 2008 period. The \$579 was comprised of \$7,578 in net income and \$4,178 derived from adjustments for non-cash items less a net \$12,335 decrease from changes in operating assets and liabilities. The non-cash items included \$1,258 in depreciation and amortization expense, \$1,174 in non-cash stock compensation expense, \$520 for the provision for doubtful accounts and \$972 for the deferred income taxes provision. Trade accounts receivable decreased \$5,137 during the nine months ended March 31, 2009, due to decreased sales during the third quarter of 2009 as compared to the fourth quarter of 2008, as well as an improvement in days sales outstanding. Inventories and accounts payable decreased by approximately \$4,499 and \$16,534, respectively, due primarily to a

reduction of inventories in both our domestic Health Sciences and Chemicals and Colorants segments as a result of the Company carrying less inventory due to the current market conditions of the economy. In addition, the Company carried more stock as of June 30, 2008 for certain products of both the Chemicals and Colorants and Health Sciences segments that were purchased from China, due to a supplier interruption related to the Olympics that were held in China in August of 2008. Some of this additional stock did not ship until the first and second quarters of 2009. Accrued expenses and other liabilities decreased \$880 during the nine months ended March 31, 2009, due primarily to a decrease in accrued compensation and a decline in accrued income tax payable, due to the timing of income tax payments partially offset by an increase in accrued expenses related to an increase in Value Added Tax (VAT) for our foreign subsidiaries. Other receivables increased \$3,884 due to an increase in VAT taxes receivables in our European subsidiaries and increased royalty receivables on certain Crop Protection products. We do not anticipate any significant impact on our liquidity and capital resources to fund ongoing operating expenditures and the continuation of semi-annual cash dividends for the next twelve months due to the decline in our cash position. Our cash position at March 31, 2008 decreased \$81 from the amount at June 30, 2007. Operating activities for the nine months ended March 31, 2008 provided cash of \$167, for this period, as compared to cash provided by operations of \$2,629 for the comparable 2007 period. The \$167 was comprised of \$5,496 in net income and \$4,003 derived from adjustments for non-cash items offset by a net \$9,332 decrease from changes in operating assets and liabilities.

Investing activities for the nine months ended March 31, 2009 used cash of \$594 primarily related to purchases and maturities of investments. Investing activities for the nine months ended March 31, 2008 provided cash of \$548 primarily related to maturities and sales of available for sale investments offset by the purchases of property and equipment.

Financing activities for the nine months ended March 31, 2009 used cash of \$1,795 primarily from the payment of \$2,476 of dividends and a \$500 payment of a note payable partly offset by proceeds from the exercise of stock options of \$1,020. Financing activities for the nine months ended March 31, 2008 used cash of \$3,602 primarily from the payments of dividends of \$3,665.

On May 7, 2009, the Company's board of directors declared a semi-annual cash dividend of \$0.10 per share to be distributed on June 26, 2009 to shareholders of record as of June 15, 2009.

Credit Facilities

We have available credit facilities with certain foreign financial institutions. These facilities provide us with a line of credit of \$19,120, as of March 31, 2009. We are not subject to any financial covenants under these arrangements.

In June 2007, we amended our revolving credit agreement with a financial institution that expires June 30, 2010, and provides for available credit of \$10,000. At March 31, 2009, we had utilized \$13 in letters of credit leaving \$9,987 of this facility unused. Under the credit agreement, we may obtain credit through direct borrowings and letters of credit. Our obligations under the credit agreement are guaranteed by certain of our subsidiaries and are secured by 65% of the capital of certain of our non-domestic subsidiaries. There is no borrowing base on the credit agreement. Interest under the credit agreement is at LIBOR plus 1.50%. The credit agreement contains several covenants requiring, among other things, minimum levels of debt service and tangible net worth. We are also subject to certain restrictive debt covenants, including covenants governing liens, limitations on indebtedness, guarantees, sale of assets, sales of receivables, and loans and investments. We were in compliance with all covenants at March 31, 2009.

Working Capital Outlook

Working capital was \$130,001 at March 31, 2009 versus \$128,786 at June 30, 2008. The increase in working capital was primarily attributable to cash derived from net income and reduction of trade receivables and inventories during the nine months. We continually evaluate possible acquisitions of or investments in businesses that are complementary to our own, and such transactions may require the use of cash. In connection with our Health Sciences business, we plan to advance a supplier \$2,000 in the fourth quarter of fiscal 2009. In connection with our crop protection business, we plan to acquire product registrations and related data filed with the United States Environmental Protection Agency as well as payments to various task force groups, which could approximate \$9,700 over the next five quarters. In the fourth quarter of fiscal 2009, we plan to repatriate approximately \$6,000 of earnings from certain foreign subsidiaries to help finance these crop protection products. We believe that our cash, other liquid assets, operating cash flows, borrowing capacity and access to the equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures and the anticipated continuation of semi-annual cash dividends for the next twelve months. We are currently looking into obtaining additional credit facilities to enhance our liquidity.

Impact of New Accounting Pronouncements

The Company adopted SFAS No. 157, "Fair Value Measurements" (SFAS No. 157) on July 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. The adoption of SFAS No. 157 did not have any impact on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 allows companies the choice to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to adopt the fair value option under SFAS 159 for its existing instruments.

Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF No. 06-11) became effective in the first quarter of 2009. EITF No. 06-11 requires that the tax benefit received on dividends associated with share-based awards that are charged to retained earnings should be recorded in additional paid-in-capital (APIC) and included in the APIC pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. The adoption of EITF No. 06-11 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No 51" (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent's ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent's ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt these new requirements in its first quarter of fiscal 2010. The adoption of this statement will impact the manner in which the Company presents noncontrolling interests, but will not impact its consolidated financial position or results of operations.

In December 2007, the FASB approved the issuance of SFAS No. 141 (revised 2007) "Business Combinations" (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions for SFAS No. 141R are effective for fiscal years beginning after December 15, 2008 and are applied prospectively to business combinations completed on or after that date. Early adoption is not permitted. SFAS No. 141R is effective for the Company beginning in the first quarter of fiscal 2010. The Company is evaluating the impact of SFAS No. 141R on its results of operations and financial condition.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently assessing the impact of SFAS No. 157 on its condensed consolidated financial statements for items within the scope of FSP 157-2, which will become effective beginning with our first quarter of fiscal 2010.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities— An Amendment of FASB Statement No. 133" (SFAS No. 161). SFAS No. 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 became effective in the third quarter of 2009. The adoption of SFAS No. 161 did not have a material impact on the Company's consolidated financial statements.

In June 2008, the FASB issued Staff Position EITF No. 03-06-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-06-1). FSP EITF 03-06-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in SFAS No. 128, "Earnings per Share". The Company will adopt FSP EITF 03-06-1 effective July 1, 2009. The Company is currently assessing the impact of FSP EITF 03-06-1 on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Sensitive Instruments

The market risk inherent in our market-risk-sensitive instruments and positions is the potential loss arising from adverse changes in investment market prices, foreign currency exchange-rates and interest rates.

Investment Market Price Risk

We had short-term investments of \$487 at March 31, 2009. Those short-term investments consisted of time deposits and corporate equity securities. Time deposits are short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value. Corporate equity securities are recorded at fair value and have exposure to price risk. If this risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges, the effect of that risk would be \$29 as of March 31, 2009. Actual results, however, may differ.

Foreign Currency Exchange Risk

In order to reduce the risk of foreign currency exchange rate fluctuations, we hedge some of our transactions denominated in a currency other than the functional currencies applicable to each of our various entities. The instruments used for hedging are short-term foreign currency contracts (futures). The changes in market value of such contracts have a high correlation to price changes in the currency of the related hedged transactions. At March 31, 2009, we had foreign currency contracts outstanding that had a notional amount of \$33,049. The difference between the fair market value of the foreign currency contracts and the related commitments at inception and the fair market value of the contracts and the related commitments at March 31, 2009, was not material.

We are subject to risk from changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income. On March 31, 2009, we had translation exposure to various foreign currencies, with the most significant being the Euro and the Chinese Renminbi. The potential loss as of March 31, 2009, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounted to \$7,479. Actual results, however, may differ.

Interest rate risk

Due to our financing, investing and cash-management activities, we are subject to market risk from exposure to changes in interest rates. We utilize a balanced mix of debt maturities along with both fixed-rate and variable-rate debt to manage our exposure to changes in interest rates. Our financial instrument holdings were analyzed to determine their sensitivity to interest rate changes. In this sensitivity analysis, we used the same change in interest rate for all maturities. All other factors were held constant. If there were an adverse change in interest rates of 10%, the expected effect on net income related to our financial instruments would be immaterial. However, there can be no assurances that interest rates will not significantly affect our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer, with assistance from other members of our management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2009 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed under Part I – “Item 1A. Risk Factors” in our Form 10-K for the year ended June 30, 2008 which could materially adversely affect our business, financial condition, operating results and cash flows. The risks and uncertainties described in our Form 10-K for the year ended June 30, 2008 are not the only ones we face. Additionally, risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition, operating results or cash flows.

Item 6. Exhibits

The exhibits filed as part of this report are listed below.

- 15.1 Awareness letter from independent registered public accounting firm
- 31.1 Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

ACETO CORPORATION

DATE May 8, 2009

BY /s/ Douglas Roth
Douglas Roth, Chief
Financial Officer
(Principal Financial Officer)

DATE May 8, 2009

BY /s/ Leonard S. Schwartz
Leonard S. Schwartz,
Chairman
and Chief Executive Officer
(Principal Executive Officer)