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ACETO CORP
Form 10-Q
May 10, 2007

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, 2007
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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The Registrant has 24,324,812 shares of common stock outstanding as of May 3, 2007.

ACETO CORPORATION AND SUBSIDIARIES QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ACETO CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per-share amounts)

March 31,
2007

(unaudited)

ASSETS

Current assets:

| | |
|--------------------------------------------------------------------------------------|-----------|
| Cash in banks | \$ 31,774 |
| Investments | 6,394 |
| Trade receivables, less allowance for doubtful accounts (March \$386, June \$416) | 54,984 |
| Other receivables | 3,502 |
| Inventory | 58,815 |
| Prepaid expenses and other current assets | 1,115 |
| Deferred income tax benefit, net | 3,406 |
| | ----- |
| Total current assets | 159,990 |

| | |
|----------------------------------|-------|
| Long-term notes receivable | 474 |
| Property and equipment, net | 4,426 |
| Property held for sale | 4,531 |
| Goodwill | 1,812 |
| Intangible assets, net | 3,964 |
| Deferred income tax benefit, net | 5,748 |
| Other assets | 3,548 |
| | ----- |

TOTAL ASSETS \$ 184,493
=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | |
|-------------------------------|-----------|
| Accounts payable | \$ 33,123 |
| Accrued expenses | 12,749 |
| Note payable - related party | 500 |
| Deferred income tax liability | 863 |
| | ----- |
| Total current liabilities | 47,235 |

| | |
|-------------------------------------|--------|
| Long-term liabilities | 6,562 |
| Environmental remediation liability | 5,200 |
| Deferred income tax liability | 3,097 |
| Minority interest | 245 |
| | ----- |
| Total liabilities | 62,339 |

Commitments and contingencies (Note 12)

Shareholders' equity:

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Common stock, \$.01 par value, 40,000 shares authorized; 25,644 shares issued; 24,323 and 24,278 shares outstanding at March 31, 2007 and June 30, 2006, respectively | 256 |
| Capital in excess of par value | 56,794 |

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| | |
|---------------------------------------------------------------------------------------------------|------------|
| Retained earnings | 72,647 |
| Treasury stock, at cost, 1,321 and 1,366 shares at March 31, 2007 and June 30, 2006, respectively | (12,765) |
| Accumulated other comprehensive income | 5,222 |
| | ----- |
| Total shareholders' equity | 122,154 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 184,493 |
| | ===== |

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

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

| | Nine Months Ended March 31, | |
|-----------------------------------------------------------------|--------------------------------|------------|
| | 2007 | 2006 |
| | ----- | ----- |
| Net sales | \$ 226,290 | \$ 225,459 |
| Cost of sales | 187,961 | 187,890 |
| | ----- | ----- |
| Gross profit | 38,329 | 37,569 |
| Selling, general and administrative expenses | 28,733 | 29,123 |
| | ----- | ----- |
| Operating income | 9,596 | 8,446 |
| Other (expense) income: | | |
| Interest expense | (83) | (76) |
| Interest and other income, net | 36 | 759 |
| | ----- | ----- |
| | (47) | 683 |
| | ----- | ----- |
| Income from continuing operations before income taxes | 9,549 | 9,129 |
| Provision for income taxes | 3,543 | 2,830 |
| | ----- | ----- |
| Income from continuing operations | 6,006 | 6,299 |
| Loss from discontinued operations, net of income taxes (Note 3) | - | (27) |
| | ----- | ----- |
| Net income | \$ 6,006 | \$ 6,272 |
| | ===== | ===== |
| Basic income per common share: | | |
| Income from continuing operations | \$ 0.25 | \$ 0.26 |
| Loss from discontinued operations | - | - |
| | ----- | ----- |
| Net income | \$ 0.25 | \$ 0.26 |

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| | | |
|--------------------------------------|---------|---------|
| Diluted income per common share: | | |
| Income from continuing operations | \$ 0.24 | \$ 0.26 |
| Loss from discontinued operations | - | - |
| Net income | \$ 0.24 | \$ 0.26 |
| Weighted average shares outstanding: | | |
| Basic | 24,298 | 24,265 |
| Diluted | 24,683 | 24,586 |

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

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

| | Three Months Ended March 31, | |
|-----------------------------------------------------------------|---------------------------------|-----------|
| | 2007 | 2006 |
| | ----- | ----- |
| Net sales | \$ 75,879 | \$ 80,915 |
| Cost of sales | 63,003 | 67,402 |
| | ----- | ----- |
| Gross profit | 12,876 | 13,513 |
| Selling, general and administrative expenses | 9,489 | 9,347 |
| | ----- | ----- |
| Operating income | 3,387 | 4,166 |
| Other (expense) income: | | |
| Interest expense | (2) | (15) |
| Interest and other (expense) income, net | (133) | (91) |
| | ----- | ----- |
| | (135) | (106) |
| | ----- | ----- |
| Income from continuing operations before income taxes | 3,252 | 4,060 |
| Provision for income taxes | 1,452 | 1,309 |
| | ----- | ----- |
| Income from continuing operations | 1,800 | 2,751 |
| Loss from discontinued operations, net of income taxes (Note 3) | - | - |
| | ----- | ----- |
| Net income | \$ 1,800 | \$ 2,751 |
| | ===== | ===== |
| Basic income per common share: | | |
| Income from continuing operations | \$ 0.07 | \$ 0.11 |
| Loss from discontinued operations | - | - |
| Net income | \$ 0.07 | \$ 0.11 |
| Diluted income per common share: | | |
| Income from continuing operations | \$ 0.07 | \$ 0.11 |
| Loss from discontinued operations | - | - |

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| | | |
|--------------------------------------|---------|---------|
| Net income | \$ 0.07 | \$ 0.11 |
| Weighted average shares outstanding: | | |
| Basic | 24,318 | 24,237 |
| Diluted | 24,800 | 24,569 |

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

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

| | Nine Months Ended March 31, | |
|--------------------------------------------------------------------------------------|--------------------------------|----------|
| | 2007 | 2006 |
| | ----- | ----- |
| Operating activities: | | |
| Net income | \$ 6,006 | \$ 6,272 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,298 | 1,083 |
| Provision for doubtful accounts | 132 | 94 |
| Non-cash stock compensation | 326 | 165 |
| Deferred income taxes | 1,495 | 1,957 |
| Gain on sale of CDC product lines | - | (66) |
| Changes in assets and liabilities: | | |
| Investments | (88) | 53 |
| Trade accounts receivable | (3,905) | (12,573) |
| Other receivables | (2,119) | 243 |
| Inventory | (10,873) | 4,225 |
| Prepaid expenses and other current assets | (96) | (636) |
| Other assets | (450) | (400) |
| Accounts payable | 8,672 | (1,586) |
| Other accrued expenses and long-term liabilities | 2,185 | 3,794 |
| | ----- | ----- |
| Net cash provided by operating activities | 2,583 | 2,625 |
| | ----- | ----- |
| Investing activities: | | |
| Purchases of investments | (6,222) | - |
| Maturities of investments | 3,279 | - |
| Sales of investments | - | 1,739 |
| Issuance of notes receivable | (75) | - |
| Payments received on notes receivable | 127 | 49 |
| Purchases of intangible assets | (437) | - |
| Purchases of property and equipment, net | (446) | (255) |
| | ----- | ----- |
| Net cash (used in) provided by investing activities | (3,774) | 1,533 |
| | ----- | ----- |
| Financing activities: | | |
| Purchases of treasury stock | - | (581) |
| Proceeds from exercise of stock options | 217 | 190 |

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| | | |
|-------------------------------------------------|-----------|-----------|
| Excess tax benefit on exercise of stock options | 24 | 66 |
| Payments of short-term bank loans | - | (109) |
| Payment of cash dividends | (1,823) | (1,816) |
| | ----- | ----- |
| Net cash used in financing activities | (1,582) | (2,250) |
| | ----- | ----- |
| Effect of exchange rate changes on cash | 815 | 17 |
| | ----- | ----- |
| Net (decrease) increase in cash | (1,958) | 1,925 |
| Cash at beginning of period | 33,732 | 19,950 |
| | ----- | ----- |
| Cash at end of period | \$ 31,774 | \$ 21,875 |
| | ===== | ===== |

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

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

(1) BASIS OF PRESENTATION

The 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 intangible assets; environmental and other contingencies; income taxes and stock-based compensation.

These 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, 2006.

Certain reclassifications have been made to the prior consolidated financial statements to conform to the current presentation.

(2) STOCK-BASED COMPENSATION

Prior to July 1, 2005, the Company accounted for stock-based employee

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compensation under the intrinsic value method as outlined in the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations while disclosing pro-forma net income and net income per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under the intrinsic value method, no compensation expense was recognized if the exercise price of the Company's employee stock options equaled or exceeded the market price of the underlying stock on the date of grant. Since the Company had issued all stock option grants with exercise prices equal to, or greater than, the market value of the common stock on the date of grant, through June 30, 2005 no compensation cost was recognized in the consolidated statements of income.

Effective July 1, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment." SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such costs be measured at the fair value of the award. This statement was adopted using the modified prospective method, which requires the Company to recognize compensation expense on a prospective basis. SFAS 123(R) also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows. Prior to the adoption of SFAS 123(R), the Company presented all tax benefits related to stock-based compensation as an operating cash inflow. The Company's policy is to satisfy stock-based compensation awards with treasury shares.

For the nine months ended March 31, 2007, the Company granted 61 options to the Directors and employees at exercise prices equal to the market value of the common stock on each date of grant. These options vest over one year and will expire ten years from the date of grant. Compensation expense of \$243, as determined using the Black-Scholes option pricing model, will be charged over the vesting period for these options. Total compensation expense related to stock options for the nine months ended March 31, 2007 and 2006 was \$266 and \$94, respectively and \$54 and \$94 for the three months ended March 31, 2007 and 2006, respectively.

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

(3) SALE OF INSTITUTIONAL SANITARY SUPPLIES SEGMENT

During June 2005, the Company entered into an agreement to sell the majority of the product lines formulated and marketed by CDC Products Corp. ("CDC"), which is one of the two reporting units forming part of the former Institutional Sanitary Supplies reportable segment. The sale of certain product lines of CDC was completed on August 24, 2005 for \$75 and a note receivable of \$44 due in April 2006, which resulted in a pre-tax gain of \$66, included in operating income in the statement of income for the nine months ended March 31, 2006. Excluded from the sale of CDC's product lines was Anti-Clog, an EPA-registered biocide that has a unique delivery system and is used in commercial air-conditioning systems. As a result of management's decision to retain the Anti-Clog product, CDC's operating results are included in continuing operations in the consolidated statements of income and are included within the Chemicals & Colorants reportable segment.

On September 6, 2005, the Company completed the sale of certain assets of Magnum Research Corp. for \$81, the remaining reporting unit of the former Institutional Sanitary Supplies reportable segment, the operating results of which are

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included in discontinued operations in the consolidated statements of income.

Net sales from discontinued operations for the three and nine months ended March 31, 2006 were \$0 and \$154, respectively. The net loss from discontinued operations for the three and nine months ended March 31, 2006 were \$0 and \$27, respectively, which includes a loss on the sale of certain assets of Magnum Research Corp. of \$22, net of income tax.

(4) SHORT-TERM INVESTMENTS

A summary of short-term investments were as follows:

| | March 31, 2007 | | June 30, 2006 | |
|----------------------------------|----------------|------------|---------------|------------|
| | Fair Value | Cost Basis | Fair Value | Cost Basis |
| Trading Securities | | | | |
| ----- | | | | |
| Corporate equity securities | \$ 739 | \$ 152 | \$ 697 | \$ 152 |
| Available For Sale Securities | | | | |
| ----- | | | | |
| Corporate bonds | 1,185 | 1,203 | 1,167 | \$ 1,210 |
| Government and agency securities | 4,470 | 4,478 | 1,445 | \$ 1,501 |
| | \$ 6,394 | | \$ 3,309 | |
| | ===== | | ===== | |

The (losses) gains on trading securities were \$(26) and \$13 for the three months ended March 31, 2007 and 2006, respectively. The gains (losses) on trading securities for the nine months ended March 31, 2007 and 2006 were \$42 and \$(4), respectively.

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

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of \$1,812 and \$1,755 as of March 31, 2007 and June 30, 2006, respectively, relates to the Health Sciences segment.

Intangible assets subject to amortization as of March 31, 2007 and June 30, 2006 were as follows:

| | Gross Carrying Value | Accumulated Amortization | Net Book Value |
|------------------------|-------------------------|-----------------------------|-------------------|
| March 31, 2007 | | | |
| ----- | | | |
| Customer relationships | \$2,927 | \$1,359 | \$1,568 |
| EPA Registration | 702 | 29 | 673 |
| Patent License | 838 | 114 | 724 |
| Non-compete agreements | 244 | 159 | 85 |

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| | | |
|---------|---------|---------|
| ----- | ----- | ----- |
| \$4,711 | \$1,661 | \$3,050 |
| ===== | ===== | ===== |

June 30, 2006

| | | | |
|------------------------|---------|---------|---------|
| Customer relationships | \$2,755 | \$ 984 | \$1,771 |
| EPA registrations | 265 | 3 | 262 |
| Patent license | 838 | 57 | 781 |
| Non-compete agreements | 230 | 115 | 115 |
| Customer lists | 600 | 600 | - |
| ----- | ----- | ----- | ----- |
| | \$4,688 | \$1,759 | \$2,929 |
| | ===== | ===== | ===== |

The estimated useful lives of customer relationships, customer lists, patent license, EPA registrations and non-compete agreements are 7 years, 5 years, 11 years, 10 years and 5 years, respectively.

Amortization expense for intangible assets subject to amortization amounted to \$502 and \$446 for the nine months ended March 31, 2007 and 2006, respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the succeeding years ended March 31 are as follows: 2008: \$565; 2009: \$565; 2010: \$518; 2011: \$520; 2012: \$200 and thereafter: \$682.

As of March 31, 2007 and June 30, 2006, the Company also had \$914 and \$860, respectively, of intangible assets pertaining to trademarks which are not subject to amortization.

Changes in goodwill and the gross carrying value of customer relationships, non-compete agreements and trademarks are attributable to changes in foreign currency exchange rates used to translate the financial statements of foreign subsidiaries.

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(6) ACCRUED EXPENSES

The components of accrued expenses as of March 31, 2007 and June 30, 2006 were as follows:

| | | |
|-----------------------------------------|-----------|----------|
| | March 31, | June 30, |
| | 2007 | 2006 |
| | ----- | ----- |
| Accrued compensation | \$ 2,945 | \$ 2,691 |
| Accrued environmental remediation costs | 200 | 200 |
| Accrued income taxes payable | 687 | 2,019 |
| Other accrued expenses | 8,917 | 5,702 |
| | ----- | ----- |
| | \$12,749 | \$10,612 |
| | ===== | ===== |

(7) COMMON STOCK

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On May 9, 2007, the Company's board of directors declared a semi-annual cash dividend of \$0.10 per share to be distributed on June 28, 2007 to shareholders of record as of June 18, 2007.

On December 7, 2006, the Company's board of directors declared a regular semi-annual cash dividend of \$0.075 per share, in which \$1,823 was paid on January 12, 2007 to shareholders of record on December 22, 2006.

(8) 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 Company's only potential common shares outstanding are stock options, which resulted in a dilutive effect of 482 and 332 shares for the three months ended March 31, 2007 and 2006, respectively. For the nine months ended March 31, 2007 and 2006, the stock options which were potential common shares outstanding resulting in a dilutive effect were 385 and 321, respectively. There were 1,211 and 1,718 stock options outstanding as of March 31, 2007 and 2006, respectively, that were not included in the calculation of diluted income per common share for the three months ended March 31, 2007 and 2006, respectively, because their effect would have been anti-dilutive.

(9) COMPREHENSIVE INCOME

Comprehensive income 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 were as follows:

| | Nine months ended March 31, | | Three months ended March 31, | |
|---------------------------------------------------------------|--------------------------------|----------|---------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | ----- | ----- | ----- | ----- |
| Comprehensive income: | | | | |
| Net income | \$ 6,006 | \$ 6,272 | \$ 1,800 | \$ 2,751 |
| Foreign currency translation adjustment | 2,222 | 375 | 498 | 503 |
| Unrealized gain (loss) on available for sale securities | 54 | (33) | 18 | 13 |
| Change in fair value of cross currency interest rate swaps | 106 | 43 | 8 | (11) |
| Total | \$ 8,388 | \$ 6,657 | \$ 2,324 | \$ 3,256 |

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The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Exchange gains or losses resulting from the translation of financial statements of foreign operations are accumulated in other comprehensive income. The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-US subsidiaries.

(10) DEFERRED INCOME TAXES

The decrease in the deferred income tax assets of \$1,598 and \$1,957 during the nine months ended March 31, 2007 and 2006, respectively, related to the reduction of taxes payable due to the utilization of foreign net operating loss carryforwards.

(11) RELATED PARTY TRANSACTIONS

Certain directors of the Company are affiliated with law firms that serve as counsel to the Company on various corporate matters. During the nine months ended March 31, 2007 and 2006, the Company incurred legal fees of \$241 and \$246, respectively, for services rendered to the Company by these law firms.

(12) COMMITMENTS AND CONTINGENCIES

As of March 31, 2007, the Company had outstanding purchase obligations totaling \$68,238 to acquire certain products for resale to third party customers.

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 February 2007 and September 2006, 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 one of Aceto's subsidiaries 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 \$2.1 million from the Company for its share to remediate the site contamination. Although the Company acknowledges that its subsidiary shipped materials to the site for formulation over twenty years ago, the Company believes that there is no evidence that hazardous materials sent by Aceto's subsidiary to the site have contaminated the environment and that the Company rejected the settlement offer. 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, Inc. ("Arsynco"), a subsidiary formerly involved in manufacturing chemicals, located in Carlstadt, New Jersey, which was closed in 1993 and is currently held for sale. During fiscal 2006, 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 \$5,400 and \$6,900. As of both March 31, 2007 and June 30, 2006 a liability of \$5,400 is included in the accompanying consolidated balance sheets. In accordance with Emerging Issues Task Force (EITF) Issue 90-8, "Capitalization of Costs to Treat Environmental

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Contamination" management believes that the majority of costs incurred to remediate the site will be capitalized in preparing the property which is currently held for sale. An appraisal of the fair value of the property by a third-party appraiser supports this assumption. However, these matters, if resolved in a manner different from those assumed in current estimates, could have a material adverse effect on the Company's financial condition, operating results and cash flows when resolved in a future reporting period.

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

In March 2006, Arsynco received notice from the Environmental Protection Agency (EPA) of its status as a potentially responsible party ("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 PRP's 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 PRP's and their financial strength. Since an amount of the liability can not 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.

One of the Company's subsidiaries was a defendant in a legal action alleging patent infringement. The patent in question covered a particular method of applying one of the products in the Company's Crop Protection segment. In September 2005, shortly before a trial was expected to begin, the parties agreed to a settlement. Under the terms of the settlement agreement, the Company was obligated to pay \$1,375, of which \$775 was paid as of March 31, 2007 and the remaining \$600 will be paid in equal installments over the next four years. As a result of the settlement, the Company recorded an intangible asset of \$838 for the patent license, which is being amortized over its remaining life, and a charge of \$537, included in SG&A expense, for the nine months ended March 31, 2006.

A subsidiary of the Company markets certain crop protection products which are subject to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). FIFRA requires that test data be provided to the Environmental Protection Agency (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 three such task force groups and historically, our payments have been in the range of \$250 - \$500 per year. The Company may be required to make additional payments in the future.

In December 2005, the Company exited the leased space previously occupied by CDC and Magnum Research Corp. As a result, the Company recorded a pre-tax charge of \$378, included in selling, general and administrative expenses representing the

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present value of the remaining lease obligation, reduced by estimated sub-lease rental income. In June 2006, the Company negotiated a lease termination with its landlord for the facility. 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. The aggregate rental payments of the third party that are guaranteed by the Company are \$925 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 \$680 and \$1,349 as of March 31, 2007 and June 30, 2006, 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.

(13) RECENT ACCOUNTING PRONOUNCEMENTS

In June 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections," a replacement of APB Opinion No. 20, "Accounting Changes," and FASB SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 applies to all voluntary changes in accounting principles, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is

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

permitted for accounting changes and corrections of errors occurring in fiscal years beginning after June 1, 2005. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the date of SFAS No. 154. Management does not believe that adoption of SFAS No. 154 will have a material impact on the consolidated financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109". FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is currently assessing the impact of FIN 48 on the consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently assessing the impact of SFAS No. 157 on the consolidated financial position and results of operations.

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In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006. Management is currently assessing the impact of SFAS No. 158 on our consolidated financial statements but does not expect that it will have a material impact on the consolidated financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006.

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 many 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. The provisions of SFAS No. 159 will be effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of SFAS No. 159 on the consolidated financial position and results of operations.

(14) 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. Health Sciences also includes Aceto branded vaccines for companion animals and finished dosage form generic drugs.

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

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

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.

CROP PROTECTION - includes herbicides, fungicides and insecticides that control

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weed growth as well as control the spread of insects and other microorganisms that can severely damage plant growth. Also includes a sprout inhibitor for potatoes and an herbicide for sugar cane. The Company changed the name of this segment from Agrochemicals to Crop Protection in 2007 to more accurately portray the markets in which we do business.

The former Institutional Sanitary Supplies segment reported in prior years, which included cleaning solutions, fragrances and deodorants for commercial and industrial customers, was successfully divested from the Company's ongoing business. During June 2005, the Company entered into an agreement to sell the majority of the product lines formulated and marketed by CDC, which was one of the two reporting units forming the Institutional Sanitary Supplies reportable segment. The sale of certain product lines of CDC was completed on August 24, 2005. Excluded from the sale of CDC's product lines was Anti-Clog, an EPA-registered biocide that has a unique delivery system and is used in commercial air-conditioning systems, the results of which are included in the Chemicals & Colorants segment. On September 6, 2005, the Company completed the sale of certain assets of Magnum Research Corp., the remaining reporting unit forming part of the former Institutional Sanitary Supplies reportable segment, the operating results of which are included in discontinued operations in the consolidated statements of income.

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, 2007 and 2006

| | Health Sciences ----- | Chemicals & Colorants ----- | Crop Protection ----- | Consolidat Totals ----- |
|-------------------------------|-----------------------------|-----------------------------------|-----------------------------|-------------------------------|
| 2007 | | | | |
| ---- | | | | |
| Net sales | \$124,013 | \$ 87,913 | \$ 14,364 | \$226,290 |
| Gross profit | 22,835 | 11,858 | 3,636 | 38,329 |
| Unallocated cost of sales (1) | | | | - |
| | | | | ----- |
| Net gross profit | | | | \$ 38,329 |
| | | | | ===== |
| 2006 | | | | |
| ---- | | | | |
| Net sales | \$127,481 | \$ 83,263 | \$ 14,715 | \$225,459 |
| Gross profit | 24,460 | 12,735 | 3,453 | 40,648 |
| Unallocated cost of sales (1) | | | | (3,079) |
| | | | | ----- |
| Net gross profit | | | | \$ 37,569 |
| | | | | ===== |

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Three months ended March 31, 2007 and 2006:

| | Health Sciences ----- | Chemicals & Colorants ----- | Crop Protection ----- | Consolidated Totals ----- |
|-------------------------------|-----------------------------|-----------------------------------|-----------------------------|---------------------------------|
| 2007 | | | | |
| ----- | | | | |
| Net sales | \$41,358 | \$30,528 | \$ 3,993 | \$75,879 |
| Gross profit | 7,420 | 4,260 | 1,196 | 12,876 |
| Unallocated cost of sales (1) | | | | - |
| | | | | ----- |
| Net gross profit | | | | \$12,876 |
| | | | | ===== |
| 2006 | | | | |
| ----- | | | | |
| Net sales | \$44,724 | \$31,325 | \$ 4,866 | \$80,915 |
| Gross profit | 8,167 | 4,585 | 1,515 | 14,267 |
| Unallocated cost of sales (1) | | | | (754) |
| | | | | ----- |
| Net gross profit | | | | \$13,513 |
| | | | | ===== |

(1) Prior to July 2006, certain freight and storage costs were not able to be allocated to the segments. Effective July 2006, as a result of certain system improvements, all freight and storage costs are allocated to a particular segment. Therefore, the unallocated portion of certain freight and storage costs for the nine months ended March 31, 2007 have now been identified to the segments as presented above. Total Company gross profit and margin were not affected by this change in allocation of costs. However, the comparison of gross profit by segment will be affected by the change in allocation of these costs.

Net sales and gross profit by location for the nine months ended March 31, 2007 and 2006 and long-lived assets by location as of March 31, 2007 and June 30, 2006 were as follows:

| | Net Sales ----- | | Gross Profit ----- | | Long-Lived Ass ----- | |
|---------------|--------------------------------|-----------|--------------------------------|-----------|-------------------------|-------|
| | Nine months ended March 31, | | Nine months ended March 31, | | As of | |
| | 2007 | 2006 | 2007 | 2006 | March 31, 2007 | J |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| United States | \$131,487 | \$140,492 | \$ 21,358 | \$ 21,596 | \$ 3,251 | \$ |
| Germany | 50,599 | 42,784 | 11,827 | 9,796 | 3,879 | |
| Netherlands | 5,964 | 7,760 | 1,166 | 1,350 | 105 | |
| France | 12,594 | 11,743 | 1,517 | 1,369 | 74 | |
| Asia-Pacific | 25,646 | 22,680 | 2,461 | 3,458 | 2,893 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$226,290 | \$225,459 | \$ 38,329 | \$ 37,569 | \$ 10,202 | \$ |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Aceto Corporation

We have reviewed the consolidated balance sheet of Aceto Corporation and subsidiaries as of March 31, 2007, and the related consolidated statements of income for the three-month and nine-month periods ended March 31, 2007 and 2006, and the related consolidated statements of cash flows for the nine-month periods ended March 31, 2007 and 2006, included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended March 31, 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the 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 reviews, we are not aware of any material modifications that should be made to the 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, 2006, 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 6, 2006, 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, 2006, 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 8, 2007

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 27A of the

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Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. 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, uncertain military, political and economic conditions in the world, the mix of products sold and the profit margins thereon, order cancellation or a reduction in orders from customers, competitive product offerings and pricing actions, an inability to continue to license technology needed to sell certain of our crop protection products, the availability and pricing of key raw materials, dependence on key members of management, risks of entering into new European markets, continued successful integration of acquisitions, 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 and share amounts are expressed in thousands, except for share prices and per-share amounts.

EXECUTIVE SUMMARY

We are reporting net sales of \$226,290 for the nine months ended March 31, 2007, which represents a slight increase over the \$225,459 reported in the comparable prior period. Gross profit for the nine months ended March 31, 2007 was \$38,329 and our gross margin was 16.9% as compared to gross profit of \$37,569 and gross margin of 16.7% for the comparable prior period. Other (expense) income for the nine months ended March 31, 2007 was (\$47) which is a decrease of income of \$730 as compared to the comparable prior period. The decrease can be directly attributed to a decrease in a government subsidy paid annually in Shanghai and larger foreign exchange losses due to the devaluation of the US dollar compared to the Euro and Chinese Yuan. Our net income of \$6,006, or \$0.24 per diluted share was \$266 or 4.2% lower than the comparable prior period.

Our financial position as of March 31, 2007 remains strong, as we had cash of \$31,774, working capital of \$112,755, no long-term debt, and shareholders' equity of \$122,154.

Our business is organized along product lines into three principal 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 (API's), pharmaceutical intermediates, nutritionals and biopharmaceuticals. In fiscal 2007, we entered the market for finished dosage form generic drugs when we shipped our first Aceto branded product, Isoflurane.

We typically partner with both customers and suppliers years in advance of a drug coming off patent to provide the generic equivalent. We have a pipeline of new API's 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 new

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opportunities to provide a second-source option for existing generic drugs with approved ANDA's. The opportunities that we are looking for are to supply the API's for the more mature generic drugs where pricing has settled down following the dramatic decreases in price that the drug 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 volume and pricing of the affected products.

By leveraging our worldwide sourcing and regulatory capabilities, we believe we can be an alternative, second-source low cost provider of existing API's 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 Aceto's raw materials also find their way into high tech products like high end electronic parts (circuit boards and computer chips) and binders for specialized rocket fuels. Aceto is 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. Continued global Gross Domestic Product growth should drive higher demand for the chemical industry, especially in China and other emerging regions of the world. With supply growth limited, industry supply/demand balances should remain favorable. However, continued volatility in energy costs adds uncertainty to the profit outlook.

The Crop Protection segment sells herbicides, pesticides, and other agricultural chemicals to customers, primarily located in the United States and Western Europe. Our joint venture with Nufarm, which markets Butoxone(R), is expected to increase our market share of the peanut, soybean and alfalfa herbicide markets. In fiscal 2007, we entered into a multi-year contract with a major agricultural chemical distributor and launched generic Asulam, an herbicide for sugar cane and the first generic registration that Aceto has received. Our plan is to develop over time a pipeline of additional products in a similar manner. The Crop Protection segment was formerly reported as the Agrochemical segment with the name change effected on December 31, 2006.

Our main business strengths are sourcing, regulatory support, quality control, marketing and distribution. With a physical presence in ten countries, we distribute over 1000 chemicals and pharmaceuticals 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 Management's Discussion and Analysis section, we explain our general financial condition and results of operations, including the following:

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

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As you read this Management's Discussion and Analysis section, refer to the accompanying consolidated statements of income, which present the results of our operations for the three and nine month periods ended March 31, 2007 and 2006. We analyze and explain the differences between periods in the specific line items of the consolidated statements of income.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

As disclosed in our Form 10-K for the year ended June 30, 2006, 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 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 intangible assets, environmental and other contingencies, stock-

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based compensation, and income taxes. 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. The actual results may differ from these estimates.

Since June 30, 2006, 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, 2007 COMPARED TO NINE MONTHS ENDED MARCH 31, 2006

| Segment ----- | NET SALES BY SEGMENT Nine months ended March 31, | | | | |
|-----------------------|-----------------------------------------------------|---------------|--------------|---------------|--------------------------------------|
| | 2007 ---- | % of Total | 2006 ---- | % of Total | Comparison Over/ (Under) ----- |
| Net Sales | ----- | ----- | Net Sales | ----- | \$ Change ----- |
| Health Sciences | \$124,013 | 54.8% | \$127,481 | 56.6% | \$ (3,468) |
| Chemicals & Colorants | 87,913 | 38.9 | 83,263 | 36.9 | 4,650 |
| Crop Protection | 14,364 | 6.3 | 14,715 | 6.5 | (351) |
| | ----- | ----- | ----- | ----- | ----- |
| Net sales | \$226,290 | 100.0% | \$225,459 | 100.0% | \$ 831 |
| | ===== | ===== | ===== | ===== | ===== |

GROSS PROFIT BY SEGMENT
Nine months ended March 31,

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| SEGMENT | 2007 | | 2006 | | Comparison |
|-------------------------------|--------------|------------|--------------|------------|---------------|
| | Gross Profit | % of Sales | Gross Profit | % of Sales | Over/ (Under) |
| | | | | | \$ Change |
| Health Sciences | \$ 22,835 | 18.4% | \$ 24,460 | 19.2% | \$ (1,625) |
| Chemicals & Colorants | 11,858 | 13.5 | 12,735 | 15.3 | (877) |
| Crop Protection | 3,636 | 25.3 | 3,453 | 23.5 | 183 |
| Segment gross profit | 38,329 | 16.9 | 40,648 | 18.0 | (2,319) |
| Freight and storage costs (1) | - | - | (3,079) | (1.3) | 3,079 |
| Gross profit | \$ 38,329 | 16.9% | \$ 37,569 | 16.7% | \$ 760 |

(1) Prior to July 2006, certain freight and storage costs were not able to be allocated to the Company's three segments. Effective July 2006, as a result of certain system improvements, all freight and storage costs are allocated to a particular segment. Therefore, the unallocated portion of certain freight and storage costs for the nine months ended March 31, 2007 have now been identified to the segments as presented above. Total Company gross profit and margin were not affected by this change in allocation of costs. However, the comparison of gross profit by segment will be affected by the change in allocation of these costs.

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NET SALES

Net sales increased \$831, or 0.4%, to \$226,290 for the nine months ended March 31, 2007, compared with \$225,459 for the comparable prior period. The increase in sales can be attributed to a 5.6% sales increase in our Chemicals & Colorants segment which was partially offset by a 2.7% decrease in our Health Science segment and 2.4% decrease in our Crop Protection segment over the 2006 comparable period.

HEALTH SCIENCES

Net sales for the Health Sciences segment decreased by \$3,468 for the nine months ended March 31, 2007, to \$124,013, which represents a 2.7% decrease from net sales of \$127,481 for the prior period. This decrease was primarily the result of a decrease from one specific generic product of \$9,798 due to its normal selling pattern. The decrease was offset by increases in pharmaceutical intermediate sales of \$2,216 and foreign sales increases of \$4,801 over the same period last year.

CHEMICALS & COLORANTS

Net sales for the Chemicals & Colorants segment were \$87,913 for the nine months ended March 31, 2007, compared to \$83,263 for the prior period. This increase of \$4,650, or 5.6%, over the prior period is primarily attributable to an increase in the number of products being offered by our foreign subsidiaries, namely Germany and Singapore. Sales of Chemicals & Colorants by our foreign subsidiaries for the nine months ended March 31, 2007 increased by \$5,035 over

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the comparable prior year period. One customer within our color-pigment and pigment-intermediate business, whose contract expired in fiscal 2006, purchased \$3,123 during the nine months ended March, 2006 as compared to zero in the current period. This reduction was offset by increased sales of coatings of \$5,968.

CROP PROTECTION

Net sales for the Crop Protection segment decreased to \$14,364 for the nine months ended March 31, 2007, a decrease of \$351, or 2.4%, from net sales of \$14,715 for the prior period. The overall decrease in net sales was mainly attributable to decreases in three products of \$2,972 due to the unseasonable dry weather conditions, particularly in the southern U.S. region and the 10-20% reduction of peanut acreage in favor of corn due to the increased demand for ethanol. These decreases were partially offset by the launch of our Asulam product in the first quarter of 2007 which resulted in sales of \$2,802.

GROSS PROFIT

Gross profit increased by \$760 to \$38,329 (16.9% of net sales) for the nine months ended March 31, 2007, as compared to \$37,569 (16.7% of net sales) for the prior period. The gross profit of each segment was negatively affected by the direct allocation of certain freight and storage costs in the nine months ended March 31, 2007 that had been reported as unallocated in prior years. The Company's overall gross profit and margin were not affected but the segmental comparisons to last year have been affected.

HEALTH SCIENCES

Health Sciences' gross profit of \$22,835 for the nine months ended March 31, 2007, was \$1,625 or 6.6% lower than the prior year comparable period. This decrease in gross profit is attributable to the expected decrease in sales of one particular product in the generics product group as described above which resulted in a \$790 decline in gross profit. The balance of the gross profit shortfall can be mainly attributed to the direct allocation of certain freight and storage charges not included in last year's comparable period.

CHEMICALS & COLORANTS

Gross profit for the nine months ended March 31, 2007 decreased by \$877, or 6.9%, compared to the prior period. The gross margin percentage was 13.5% for the nine months ended March 31, 2007 compared to 15.3% for the prior

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period primarily due to the direct allocation of certain freight and storage charges not included in last year's comparable period. The foreign subsidiaries, primarily Germany and Singapore, contributed \$259 or 10% more gross profit for the nine months ended March 31, 2007 as compared to the prior period. Additionally, the coating products reported an increase of \$663 due to the sales increase previously mentioned above over the same period in the prior year.

CROP PROTECTION

Gross profit for the Crop Protection segment increased to \$3,636 for the nine months ended March 31, 2007, versus \$3,453 for the prior period, an increase of \$183 or 5.3%. Gross margin for the period was 25.3% compared to the prior period gross margin of 23.5%. The primary reason for the increase in gross profit was due to the launch of the Asulam product. The gross profit was also negatively

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affected by \$858 related to the sales decline in the three products discussed earlier, which was partially offset by lower costs to maintain our EPA registered products of \$295.

UNALLOCATED FREIGHT AND STORAGE COSTS

Unallocated cost of sales were \$0 for the nine months ended March 31, 2007 compared to \$3,079 in the prior period. As a result of certain system improvements, certain freight and storage costs which were not able to be identified to a particular segment in the prior fiscal years, have now been included within the segments. Therefore, there are no unallocated freight and storage costs in the current period. Total Company gross profit and margin were not affected by this allocation. This revision will affect the comparison of the segments' gross profits, however.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") decreased by \$390 or 1.3% to \$28,733 for the nine months ended March 31, 2007 compared to \$29,123 for the prior period. As a percentage of sales, SG&A remained virtually consistent at 12.7% for the nine months ended March 31, 2007 compared to 12.9% for the prior period. The decrease in SG&A relates primarily to a legal settlement charge recorded in the prior year of \$537 and lower operating expenses of \$1,134 resulting from the sale of one of our subsidiaries in August 2005. These decreases were partially offset by the increase in operating expenses of our foreign businesses to support their increased marketing efforts of \$1,001.

OPERATING INCOME

For the nine months ended March 31, 2007, operating income was \$9,596 compared to \$8,446 in the prior period, an increase of \$1,150 or 13.6%. This increase was due to the overall increase in gross profit of \$760 and the \$390 reduction in SG&A expenses.

OTHER (EXPENSE) INCOME

Other (expense) income was (\$47) for the nine months ended March 31, 2007, which represents a decrease of income of \$730 from the prior period. This decrease is primarily attributable to a decrease of \$409 regarding a government subsidy paid annually for doing business in a free trade zone in Shanghai, China, settlement of an anti-dumping claim of \$330 and increased realized and unrealized foreign exchange losses of \$256, offset in part by an increase in interest income of \$402 due to an increase in interest rates and higher cash balances invested during the nine months ended March 31, 2007 compared to the comparable prior year period.

PROVISION FOR INCOME TAXES

The effective tax rate for the nine months ended March 31, 2007 increased to 37.1% from 31.0% for the prior period. The increase in the effective tax rate was primarily due to increased earnings in foreign tax jurisdictions with higher tax rates, primarily Germany, and reduced earnings in foreign tax jurisdictions with lower tax rates, primarily Shanghai.

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DISCONTINUED OPERATIONS

In accordance with SFAS No.144, "Accounting for the Impairment or Disposal of

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Long-lived Assets," the results of operations of one of the subsidiaries forming part of the former Institutional Sanitary Supplies segment have been recorded as discontinued operations in the accompanying consolidated statements of income. The net loss from discontinued operations was \$0 and \$27 for the nine months ended March 31, 2007 and 2006, respectively. The net loss in last year's period included a loss on the sale of certain assets of \$22, net of income taxes.

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THREE MONTHS ENDED MARCH 31, 2006

NET SALES BY SEGMENT Three months ended March 31,

| Segment | 2007 | | 2006 | | Comparison Over/(Under) |
|-----------------------|------------------|---------------|------------------|---------------|----------------------------|
| | Net Sales | % of Total | Net Sales | % of Total | |
| Health Sciences | \$ 41,358 | 54.5% | \$ 44,724 | 55.3% | \$ (3,366) |
| Chemicals & Colorants | 30,528 | 40.2 | 31,325 | 38.7 | (797) |
| Crop Protection | 3,993 | 5.3 | 4,866 | 6.0 | (873) |
| Net sales | \$ 75,879 | 100.0% | \$ 80,915 | 100.0% | \$ (5,036) |

GROSS PROFIT BY SEGMENT Three months ended March 31,

| SEGMENT | 2007 | | 2006 | | Comparison Over/(Under) |
|-------------------------------|------------------|---------------|------------------|---------------|----------------------------|
| | Gross Profit | % of Sales | Gross Profit | % of Sales | |
| Health Sciences | \$ 7,420 | 17.9% | \$ 8,167 | 18.3% | \$ (747) |
| Chemicals & Colorants | 4,260 | 14.0 | 4,585 | 14.6 | (325) |
| Crop Protection | 1,196 | 30.0 | 1,515 | 31.1 | (319) |
| Segment gross profit | 12,876 | 17.0 | 14,267 | 17.6 | (1,391) |
| Freight and storage costs (1) | - | - | (754) | (0.9) | 754 |
| Gross profit | \$ 12,876 | 17.0% | \$ 13,513 | 16.7% | \$ (637) |

(1) Prior to July 2006, certain freight and storage costs were not able to be allocated to the segments. Effective July 2006, as a result of certain system improvements, all freight and storage costs are allocated to a particular segment. Therefore, the unallocated portion of certain freight and storage costs for the three months ended March 31, 2007 have now been identified to the segments as presented above. Total Company gross profit and margin were not affected by this change in allocation of costs. However, the comparison of gross

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profit by segment will be affected by the change in allocation of these costs.

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NET SALES

Net sales decreased \$5,036 or 6.2%, to \$75,879 for the three months ended March 31, 2007, compared with \$80,915 for the comparable prior period. We reported sales decreases in all of our segments as explained below.

HEALTH SCIENCES

Net sales for the Health Sciences segment decreased by \$3,366 for the three months ended March 31, 2007, to \$41,358, which represents a 7.5% decrease from net sales of \$44,724 for the prior period. The sales decrease from the prior period is primarily attributable to a decrease from one specific generic product of \$2,434 due to its normal selling pattern. Additionally, as domestic sales of some of our larger older products have decreased, they have been replaced by a higher quantity of newer products with lower sales volumes. We expect this trend of higher quantity of newer products, with lower sales volumes compared to historical levels to continue.

CHEMICALS & COLORANTS

Net sales for the Chemicals & Colorants segment were \$30,528 for the three months ended March 31, 2007, compared to \$31,325 for the prior period. This decrease of \$797, or 2.5%, from the prior period is primarily attributable to an overall decrease in domestic sales of \$987 compared to the same quarter for the prior period. The net decrease includes increases in the coatings business which was offset by decreases in Ag intermediates and dye intermediate product families.

CROP PROTECTION

Net sales for the Crop Protection segment decreased to \$3,993 for the three months ended March 31, 2007, a decrease of \$873, or 17.9%, over net sales of \$4,866 for the prior year. The decrease in net sales was primarily attributable to an insecticide used on peanuts which recorded \$1,619 less sales due to unseasonably dry weather conditions, particularly in the southern U.S. region and the 10-20% reduction of peanut acreage in favor of corn due to the increased demand for ethanol. The sales decrease was partially offset by sales of our Asulam product, launched in the first quarter of 2007, which produced sales of \$1,100.

GROSS PROFIT

Gross profit decreased by \$637 to \$12,876 (17.0% of net sales) for the three months ended March 31, 2007, as compared to \$13,513 (16.7% of net sales) for the prior period. The gross profit of each segment was negatively affected by the direct allocation of certain freight and storage costs in the three months ended March 31, 2007 that had been reported as unallocated in prior years. The Company's overall gross profit and margin were not affected but the segmental comparisons to last year have been affected.

HEALTH SCIENCES

Health Sciences' gross profit of \$7,420 for the three months ended March 31, 2007, was \$747 or 9.1% lower than the prior period. This decrease in gross

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profit is directly attributable to the expected decrease in sales of one particular product in the generic product group which was described above which resulted in a \$245 decline in gross profit. The balance of the gross profit shortfall can be attributed to the decline in domestic sales of older larger products and the direct allocation of certain freight and storage charges in the current period which were not included in last year's comparable period.

CHEMICALS & COLORANTS

Gross profit for the three months ended March 31, 2007 decreased by \$325, or 7.1%, from the prior period. The gross margin percentage was 14.0% for the three months ended March 31, 2007 compared to 14.6% for the prior period. The primary reason for the decline in gross profit and margin is due to the allocation of certain freight and storage charges in the current period which were not included in last year's comparable period. The foreign

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subsidiaries contributed \$313 or 26% less gross profit due to the change in product mix for the three months ended March 31, 2007 as compared to the prior period which was offset by increased gross profit in the color pigment, coating and miscellaneous intermediate product families of \$326 compared to the prior year.

CROP PROTECTION

Gross profit for the Crop Protection segment decreased to \$1,196 for the three months ended March 31, 2007, versus \$1,515 for the prior period, a decrease of \$319 or 21.1%. Gross margin for the period was 30.0% compared to the prior period gross margin of 31.1%. The primary reason for the decrease in gross profit was due to the sales decline of insecticides used on peanuts of \$620 which was partially offset by gross profit from our Asulam product of \$327.

UNALLOCATED FREIGHT AND STORAGE COSTS

Unallocated cost of sales were \$0 for the three months ended March 31, 2007 compared to \$754 in the prior period. As a result of certain system improvements, certain freight and storage costs which were not able to be identified to a particular segment in prior periods, have now been included within the segments. Therefore, there are no unallocated freight and storage costs in the current period. Total Company gross profit and margin were not affected by this allocation. This revision will affect the comparison of the segments' gross profits, however.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A increased \$142, or 1.5%, to \$9,489 for the three months ended March 31, 2007 compared to \$9,347 for the prior period. As a percentage of sales, SG&A was 12.5% for the three months ended March 31, 2007 versus 11.6% for the prior period. The increase in SG&A relates primarily to the increase in compensation expenses due to cost of living increase over the prior year of \$191 which was partially offset by the lower operating expenses of \$107 resulting from the sale of one of our subsidiaries in August 2005.

OPERATING INCOME

For the three months ended March 31, 2007, operating income was \$3,387 compared to \$4,166 in the prior period, a decrease of \$779 or 18.7%. This decrease was due to the overall decrease in gross profit of \$637 and the \$142 increase in

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SG&A expenses.

PROVISION FOR INCOME TAXES

The effective tax rate for the three months ended March 31, 2007 was 44.6% as compared to 32.2% for the prior period. The increase in the effective tax rate was primarily due to estimated full year increased earnings in foreign tax jurisdictions with higher tax rates, primarily Germany, and reduced earnings in foreign tax jurisdictions with lower tax rates, primarily Shanghai. We expect our effective tax rate for fiscal 2007 to be 37%.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

At March 31, 2007, we had \$31,774 in cash, \$6,394 in short-term investments and no short-term bank loans.

Our cash position at March 31, 2007 decreased \$1,958 from the amount at June 30, 2006. Operating activities for the nine months ended March 31, 2007 provided cash of \$2,583, for this period, as compared to cash provided by operations of \$2,625 for the comparable 2006 period. The \$2,583 was comprised of \$6,006 in net income and \$3,251 derived from adjustments for non-cash items, offset by a net \$6,674 decrease from changes in operating assets and liabilities. The non-cash items included \$1,298 in depreciation and amortization expense and \$1,495 for provision for income taxes. Accounts receivable increased \$3,905 during the nine months ended March 31, 2007, due to increased sales during the third quarter of 2007 as compared to the fourth quarter of 2006. Inventories increased by approximately \$10,873 and accounts payable increased by \$8,672 as a result of a ramp-up in orders for products to be shipped in the fourth quarter of 2007 and an increase in products in which we have decided to carry

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stock. Other accrued expenses and long-term liabilities increased \$2,185 during the nine months ended March 31, 2007, due primarily to an increase in accrued expenses related to a joint venture and an increase in accrued expenses for our foreign subsidiaries related to increased sales and profitability overseas. Other receivables increased \$2,119 due to an increase in VAT taxes receivables in our European subsidiaries. Operating activities for the nine months ended March 31, 2006 provided cash of \$2,625, primarily from net income of \$6,272, partially offset by a net decrease caused by changes in assets and liabilities.

Investing activities for the nine months ended March 31, 2007 used cash of \$3,774 primarily related to purchases of investments of \$6,222 and purchases of property and equipment and intangibles of \$446 and \$437, respectively, offset in part by \$3,279 of maturities of available for sale investments. Investing activities for the nine months ended March 31, 2006 provided cash of \$1,533 primarily related to the sale of certain short term investments.

Financing activities for the nine months ended March 31, 2007 used cash of \$1,582 primarily from the payments of dividends of \$1,823. Financing activities for the nine months ended March 31, 2006 used cash of \$2,250 primarily as a result of payments of dividends of \$1,816 and treasury stock purchases of \$581.

On May 9, 2007, the Company's board of directors declared a semi-annual cash dividend of \$0.10 per share to be distributed on June 28, 2007 to shareholders of record as of June 18, 2007.

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CREDIT FACILITIES

We have credit facilities with certain foreign financial institutions. These facilities provide us with a line of credit of \$19,666, of which \$0 was utilized as of March 31, 2007 leaving \$19,666 of this facility unused. We are not subject to any financial covenants under these arrangements.

We have a revolving credit facility with a domestic financial institution which expires June 30, 2007 and provides for available credit of \$10,000. At March 31, 2007, we had utilized \$534 in letters of credit, leaving \$9,466 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, limitations on cash dividends, guarantees, and sale of assets, sales of receivables, and loans and investments. We were in compliance with all covenants at March 31, 2007.

WORKING CAPITAL OUTLOOK

Working capital was \$112,755 at March 31, 2007 versus \$104,707 at June 30, 2006. The increase in working capital was attributable to various factors including net income during the period. 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. 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. Further, we may obtain additional credit facilities to enhance our liquidity.

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OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS AND CONTINGENCIES

We have no material financial commitments other than those under operating lease agreements, letters of credit and unconditional purchase obligations. We have certain contractual cash obligations and other commercial commitments which will impact our short-term and long-term liquidity. At March 31, 2007, we had no significant obligations for capital expenditures. At March 31, 2007, contractual cash obligations and other commercial commitments were as follows:

| | Payments Due and/or Amount of Commitment Expiration Per Period | | | | |
|------------------|----------------------------------------------------------------------|---------------------|--------------|--------------|-----------------|
| | Total | Less Than 1 Year | 1-3 Years | 4-5 Years | After 5 Year |
| Operating leases | \$ 5,263 | \$ 1,459 | \$ 2,602 | \$ 1,128 | \$ 7 |

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| | | | | | |
|------------------------------------|----------|----------|----------|----------|-------|
| Commercial letters of credit | 680 | 680 | - | - | |
| Standby letters of credit | 223 | 223 | - | - | |
| Unconditional purchase obligations | 68,238 | 66,702 | 1,536 | - | |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$74,404 | \$69,064 | \$ 4,138 | \$ 1,128 | \$ 7 |
| | ===== | ===== | ===== | ===== | ===== |

Other significant commitments and contingencies include the following:

1. Our non-qualified deferred compensation plans are intended to provide certain executives with supplemental retirement benefits beyond our 401(k) plan, as well as to permit additional deferral of a portion of their compensation. All compensation deferred under the plans is held by us in a grantor trust, which is considered our asset. We had a liability under the plan, included in long-term liabilities, of \$3,392, and the assets held by the grantor trust, included in other assets, amounted to \$2,867 as of March 31, 2007.

2. One of our subsidiaries markets certain crop protection products which are subject to the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"). FIFRA requires that test data be provided to the Environmental Protection Agency ("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. We are presently a member of three such task force groups and historically our payments have been in the range of \$250 - \$500 per year. We may be required to make additional payments in the future.

3. We are subject to pending and threatened legal proceedings that have arisen in the normal course of business. We do not know how the final resolution of these matters will affect our results of operations in a particular reporting period. Our management is of the opinion, however, that the ultimate outcome of such matters will not have a material adverse effect upon our financial condition or liquidity.

RELATED PARTY TRANSACTIONS

Two of our directors are affiliated with law firms that serve as our legal counsel on various corporate matters. For the three months ended March 31, 2007 and 2006, we incurred legal fees of \$58 and \$89, respectively, for services rendered to the Company by those law firms. The fees charged by those firms were

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at rates comparable to rates obtainable from other firms for similar services.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections," a replacement of APB Opinion No. 20, "Accounting Changes", and FASB SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 applies to all voluntary changes in accounting principles, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors occurring in fiscal years beginning after June 1, 2005. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the date of SFAS No. 154. Management does not believe that adoption of SFAS No. 154 will have a material impact on the consolidated financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109". FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is currently assessing the impact of FIN 48 on the consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently assessing the impact of SFAS No. 157 on the consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006. Management is currently assessing the impact of SFAS No. 158 on our consolidated financial statements but does not expect that it will have a material impact on the consolidated financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006.

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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 many 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

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subsequent reporting date. The provisions of SFAS No. 159 will be effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of SFAS No. 159 on the consolidated financial position and results of operations.

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 \$6,394 at March 31, 2007. Those short-term investments consisted of government and agency securities, corporate bonds and corporate equity securities, and they were recorded at fair value and had 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 \$639 as of March 31, 2007. However, actual results 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, 2007, we had foreign currency contracts outstanding that had a notional amount of \$20,433. 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, 2007, was not material.

In addition, we enter into cross currency interest rate swaps to reduce foreign currency exposure on inter-company transactions. In May 2003 we entered into a five-year cross currency interest rate swap transaction, for the purpose of hedging fixed-interest-rate, foreign-currency-denominated cash flows under an inter-company loan. Under the terms of the derivative financial instrument, U.S. dollar fixed principal and interest payments to be received under the inter-company loan will be swapped for Euro denominated fixed principal and interest payments. The change in fair value of the swap from date of purchase to March 31, 2007, was \$(130). The gains or losses on the inter-company loan due to changes in foreign currency rates will be offset by the gains or losses on the swap in the accompanying consolidated statements of income. Since our interest rate swap qualifies as a hedging activity, the change in its fair value,

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amounting to \$106 and \$43 for the nine months ended March 31, 2007 and 2006, respectively, is recorded in accumulated other comprehensive income included in the accompanying consolidated balance sheets.

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, 2007, we had translation exposure to various foreign currencies, with the most significant being the Euro and the Chinese Yuan. The potential loss as of March 31, 2007, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, amounted to \$5,894. However, actual results 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 at year-end 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 is an adverse change in interest rates

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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, 2007 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, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In February 2007 and September 2006, 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 one of Aceto's subsidiaries 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 \$2.1 million from the Company for its share to remediate the site contamination. Although the Company acknowledges that its subsidiary shipped materials to the site for formulation over twenty years ago, the Company believes that there is no evidence that hazardous materials sent by Aceto's subsidiary to the site have contaminated the environment and that the Company rejected the settlement offer. 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 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.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors and other information included in this Quarterly Report. The risks and uncertainties described below are not the only ones we face. Additional, risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risk factors occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

IF WE ARE UNABLE TO COMPETE EFFECTIVELY WITH OUR COMPETITORS, MANY OF WHICH HAVE GREATER MARKET PRESENCE AND RESOURCES THAN US, OUR PROFITABILITY AND FINANCIAL CONDITION WILL BE ADVERSELY AFFECTED.

Our financial condition and operating results are directly related to our ability to compete in the intensely competitive worldwide chemical market. We face intense competition from global and regional distributors of chemical products, many of which are large chemical manufacturers as well as distributors. Many of these companies have substantially greater resources than us, including greater financial, marketing and distribution resources. We cannot assure you that we will be able to compete successfully with any of these companies. In addition, increased competition could result in price reductions, reduced margins and loss of market share for our services, all of which would adversely affect our business, results of operations and financial condition.

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WE MAY INCUR SIGNIFICANT UNINSURED ENVIRONMENTAL AND OTHER LIABILITIES INHERENT IN THE CHEMICAL DISTRIBUTION INDUSTRY THAT WOULD HAVE A NEGATIVE EFFECT ON OUR FINANCIAL CONDITION.

The business of distributing chemicals is subject to regulation by numerous federal, state, local, and foreign governmental authorities. These regulations impose liability for loss of life, damage to property and equipment, pollution and other environmental damage that may occur in our business. Many of these regulations provide for substantial fines and remediation costs in the event of chemical spills, explosions and pollution. While we believe that we are in substantial compliance with all current laws and regulations, we can give no assurance that we will not incur material liabilities that exceed our insurance coverage or that such insurance will remain available on terms and at rates acceptable to us. Additionally, if existing environmental and other regulations are changed, or additional laws or regulations are passed, the cost of complying with those laws may be substantial, thereby adversely affecting our financial performance.

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Our subsidiary, Arsynco, has environmental remediation obligations in connection with its former manufacturing facility in Carlstadt, New Jersey. Estimates of how much it would cost to remediate environmental contamination at this site have increased since the facility was closed in 1993. If the actual costs are significantly greater than estimated, it could have a material adverse effect on our financial condition, operating results and cash flows.

In March 2006, also related to its former manufacturing facility in Carlstadt, New Jersey, Arsynco received notice from the Environmental Protection Agency (EPA) of its status as a potentially responsible party ("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 PRP's 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 potentially responsible parties and their financial strength. Since an amount of the liability can not 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.

ASSESSMENTS BY VARIOUS TAX AUTHORITIES MAY BE MATERIALLY DIFFERENT THAN THE AMOUNTS WE HAVE PROVIDED FOR IN OUR CONSOLIDATED FINANCIAL STATEMENTS.

We are regularly audited by federal, state, and foreign tax authorities. From time to time, these audits may result in proposed assessments. While we believe that we have adequately provided for any such assessments, future settlements may be materially different than we have provided for and thereby adversely affect our earnings and cash flows.

We operate in various tax jurisdictions, and although we believe that we have provided for income and other taxes in accordance with the relevant regulations, if the applicable regulations were ultimately interpreted differently by a taxing authority, we may be exposed to additional tax liabilities.

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IF WE ARE UNABLE TO CONTINUE TO USE LICENSED TECHNOLOGY THAT WE RELY ON TO CONDUCT OUR CROP PROTECTION BUSINESS, OUR PROFITABILITY AND FINANCIAL CONDITION WILL BE ADVERSELY AFFECTED.

We cannot assure you that we will be able to continue to license the technology that we currently rely on in order to sell certain of our crop protection products. An inability to license this technology could prevent us from continuing to sell the products and, in turn, materially adversely affect our profitability and financial condition. We may also incur substantial costs in seeking enforcement of our rights related to our licensed technologies.

OUR ACQUISITION STRATEGY IS SUBJECT TO A NUMBER OF INHERENT RISKS, INCLUDING THE RISK THAT OUR ACQUISITIONS MAY NOT BE SUCCESSFUL.

We continually seek to expand our business through acquisitions of other companies that complement our own and through joint ventures, licensing agreements and other arrangements. Any decision regarding strategic alternatives would be subject to inherent risks, and we cannot guarantee that we will be able to identify the appropriate opportunities, successfully negotiate economically beneficial terms, successfully integrate any acquired business, retain key employees, or achieve the anticipated synergies or benefits of the strategic alternative selected. Acquisitions can require significant capital resources and divert our management's attention from our existing business. Additionally, we may issue additional shares in connection with a strategic transaction, thereby diluting the holdings of our existing common shareholders, incur debt or assume liabilities, become subject to litigation, or consume cash, thereby reducing the amount of cash available for other purposes.

ANY ACQUISITION THAT WE MAKE COULD RESULT IN A SUBSTANTIAL CHARGE TO OUR EARNINGS.

We have previously incurred charges to our earnings in connection with acquisitions, and may continue to experience charges to our earnings for any acquisitions that we make, including large and immediate write-offs of acquired assets, or impairment charges. These costs may also include substantial severance and other closure costs

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associated with eliminating duplicate or discontinued products, employees, operations and facilities. These charges could have a material adverse effect on our results of operations for particular quarterly periods and they could possibly have an adverse impact on the market price of our common stock.

OUR REVENUE STREAM IS DIFFICULT TO PREDICT.

Our revenue stream is difficult to predict because it is primarily generated as customers place orders and customers can change their requirements or cancel orders. Many of our sales orders are short-term and may be cancelled at any time. As a result, much of our revenue is not recurring from period to period, which contributes to the variability of our results from period to period. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

OUR OPERATING RESULTS MAY FLUCTUATE IN FUTURE QUARTERS, WHICH MAY ADVERSELY AFFECT THE TRADING PRICE OF OUR COMMON STOCK.

Our operating results will fluctuate on a quarterly basis as a result of a

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number of factors, including the timing of contracts, the delay or cancellation of a contract, and changes in government regulations. Any one of these factors could have a significant impact on our quarterly results. In some quarters, our revenue and operating results may fall below the expectations of securities analysts and investors, which would likely cause the trading price of our common stock to decline.

FAILURE TO OBTAIN PRODUCTS FROM OUTSIDE MANUFACTURERS COULD ADVERSELY AFFECT OUR ABILITY TO FULFILL SALES ORDERS TO OUR CUSTOMERS.

We rely on outside manufacturers to supply products for resale to our customers. Manufacturing problems may occur with these and other outside sources. If such problems occur, we cannot ensure that we will be able to deliver our products to our customers profitably or on time.

OUR POTENTIAL LIABILITY ARISING FROM OUR COMMITMENT TO INDEMNIFY OUR DIRECTORS, OFFICERS AND EMPLOYEES COULD ADVERSELY AFFECT OUR EARNINGS AND FINANCIAL CONDITION.

We have committed in our bylaws to indemnify our directors, officers and employees against the reasonable expenses incurred by these persons in connection with an action brought against him or her in such capacity, except in matters as to which he or she is adjudged to have breached a duty to us. The maximum potential amount of future payments we could be required to make under this provision is unlimited. While we have a "director and officer" insurance policy that covers a portion of this potential exposure, we may be adversely affected if we are required to pay damages or incur legal costs in connection with a claim above our insurance limits.

OUR BUSINESS MAY BE ADVERSELY AFFECTED BY TERRORIST ACTIVITIES.

Our business depends on the free flow of products and services through the channels of commerce. Instability due to military, terrorist, political and economic actions in other countries could materially disrupt our overseas operations and export sales. In addition, in certain countries where we currently operate or export, intend to operate or export, or intend to expand our operations; we could be subject to other political, military and economic uncertainties, including labor unrest, restrictions on transfers of funds and unexpected changes in regulatory environments.

FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

A substantial portion of our revenue is denominated in currencies other than the U.S. dollar because certain of our foreign subsidiaries operate in their local currencies. Our results of operations and financial condition may therefore be adversely affected by fluctuations in the exchange rate between foreign currencies and the U.S. dollar.

WE RELY HEAVILY ON KEY EXECUTIVES FOR OUR FINANCIAL PERFORMANCE.

Our financial performance is highly dependent upon the efforts and abilities of our key executives. The loss of the services of any of our key executives could therefore have a material adverse effect upon our financial position and operating results. None of our key executives has an employment agreement with us and we do not maintain "key-man" insurance on any of our key executives.

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VIOLATIONS OF CGMP AND OTHER GOVERNMENT REGULATIONS COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

All facilities and manufacturing techniques used to manufacture products for clinical use or for commercial sale in the United States must be operated in conformity with current Good Manufacturing Practices ("cGMP") regulations as required by the FDA. Our facilities are subject to scheduled periodic regulatory and customer inspections to ensure compliance with cGMP and other requirements applicable to such products. A finding that we had materially violated these requirements could result in one or more regulatory sanctions, loss of a customer contract, disqualification of data for client submissions to regulatory authorities and a mandated closing of our facilities, which in turn could have a material adverse effect on our business, financial condition and results of operations.

LITIGATION MAY HARM OUR BUSINESS AND OUR MANAGEMENT AND FINANCIAL RESOURCES.

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

THE MARKET PRICE OF OUR STOCK COULD BE VOLATILE.

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

- o quarterly fluctuations in our operating income and earnings per share results
- o technological innovations or new product introductions by us or our competitors
- o economic conditions
- o disputes concerning patents or proprietary rights
- o changes in earnings estimates and market growth rate projections by market research analysts
- o sales of common stock by existing security holders
- o loss of key personnel
- o securities class actions or other litigation

The market price for our common stock may also be affected by our ability to meet analysts' expectations. Any failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies.

INCIDENTS RELATED TO HAZARDOUS MATERIALS COULD ADVERSELY AFFECT OUR BUSINESS.

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

THERE ARE INHERENT UNCERTAINTIES INVOLVED IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED IN PREPARING FINANCIAL STATEMENTS IN ACCORDANCE WITH U.S.

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GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. ANY CHANGES IN THE ESTIMATES, JUDGMENTS AND ASSUMPTIONS WE USE COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL POSITION AND RESULTS OF OPERATIONS.

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The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Preparing financial statements in accordance with GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change, and any such changes could result in corresponding changes to the reported amounts.

FAILURE TO MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS AND STOCK PRICE.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our annual report. Section 404 also requires our independent registered public accounting firm to attest to, and report on, management's assessment of our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, we cannot assure you that we will be able to conclude in the future that we have effective internal controls over financial reporting. If we fail to maintain effective internal controls, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission or NASDAQ. Any such action could adversely affect our financial results and the market price of our common stock and may also result in delayed filings with the Securities and Exchange Commission.

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

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SIGNATURES

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

ACETO CORPORATION

DATE MAY 10, 2007

BY /s/ Leonard S. Schwartz

Leonard S. Schwartz, Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

DATE MAY 10, 2007

BY /s/ Douglas Roth

Douglas Roth, Chief Financial Officer
(Principal Financial Officer)