ACETO CORP
Form 10-Q
May 09, 2008

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, 2008
Commission file number 000-04217

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

New York	11-1720520
(State or other jurisdiction of incorporation or organization)	(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 x No o

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

Large accelerated filer o Accelerated filer x

Non-accelerated filer o Smaller reporting company o

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

Yes o No x

The Registrant has 24,440,188 shares of common stock outstanding as of May 5, 2008.

ACETO CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2008

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 2008 (unaudited)	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,239	$ 32,320
Investments	1,169	3,036
Trade receivables, less allowance for doubtful accounts (March, $441, June $491)	72,357	58,206
Other receivables	4,160	3,123
Inventory	63,332	60,679
Prepaid expenses and other current assets	1,074	1,128
Deferred income tax benefit, net	2,726	2,541
Total current assets	177,057	161,033
Long-term notes receivable	373	449
Property and equipment, net	4,308	4,406
Property held for sale	5,268	5,268
Goodwill	1,987	1,820
Intangible assets, net	5,581	5,817
Deferred income tax benefit, net	4,618	5,958
Other assets	4,224	3,727
TOTAL ASSETS	$ 203,416	$ 188,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 35,061	$ 32,539
Short-term bank loans	-	25
Note payable – related party	500	500
Accrued expenses	17,043	14,154
Deferred income tax liability	885	885
Total current liabilities	53,489	48,103
Long-term liabilities	6,960	6,684
Environmental remediation liability	5,816	5,816
Deferred income tax liability	2,888	2,746
Minority interest	304	302
Total liabilities	69,457	63,651
Commitments and contingencies (Note 9)		
Shareholders' equity:		

Common stock, $.01 par value, 40,000 shares authorized; 25,644 shares issued; 24,435 and 24,330 shares outstanding at March 31, 2008 and June 30, 2007, respectively	256	256
Capital in excess of par value	56,614	56,854
Retained earnings	76,248	74,419
Treasury stock, at cost, 1,209 and 1,314 shares at March 31, 2008 and June 30, 2007, respectively	(11,684)	(12,693)
Accumulated other comprehensive income	12,525	5,991
Total shareholders' equity	133,959	124,827
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 203,416	$ 188,478

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

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

	Nine Months Ended March 31,	
	2008	2007
Net sales	$ 254,888	$ 226,290
Cost of sales	211,803	188,291
Gross profit	43,085	37,999
Selling, general and administrative expenses	32,924	28,722
Research and development expenses	632	11
Operating income	9,529	9,266
Other (expense) income:		
Interest expense	(63)	(83)
Interest and other income, net	596	366
	533	283
Income before income taxes	10,062	9,549
Provision for income taxes	4,566	3,543
Net income	$ 5,496	$ 6,006
Net income per common share	$ 0.23	$ 0.25
Diluted net income per common share	$ 0.22	$ 0.24
Weighted average shares outstanding:		
Basic	24,344	24,298
Diluted	24,806	24,683

See accompanying notes to condensed consolidated financial statements and accountants' review report.
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ACETO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited and in thousands, except per-share amounts)

	Three Months Ended March 31,	
	2008	2007
Net sales	$ 98,255	$ 75,879
Cost of sales	82,212	63,003
Gross profit	16,043	12,876
Selling, general and administrative expenses	11,560	9,727
Research and development expenses	279	5
Operating income	4,204	3,144
Other (expense) income:		
Interest expense	(32)	(2)
Interest and other income, net	610	110
	578	108
Income before income taxes	4,782	3,252
Provision for income taxes	1,488	1,452
Net income	$ 3,294	$ 1,800
Net income per common share	$ 0.14	$ 0.07
Diluted net income per common share	$ 0.13	$ 0.07
Weighted average shares outstanding:		
Basic	24,348	24,318
Diluted	24,745	24,800

See accompanying notes to condensed consolidated financial statements and accountants' review report.
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ACETO CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Nine Months Ended March 31,	
	2008	2007
Operating activities:		
Net income	$ 5,496	$ 6,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,935	1,298
Provision for doubtful accounts	15	132
Non-cash stock compensation	672	326
Deferred income taxes	1,297	1,495
Unrealized loss (gain) on trading securities	84	(42)
Changes in assets and liabilities:		
Investments-trading securities	325	-
Trade accounts receivable	(10,854)	(3,905)
Other receivables	(580)	(2,119)
Inventory	(295)	(10,873)
Prepaid expenses and other current assets	88	(96)
Other assets	(720)	(450)
Accounts payable	1,224	8,672
Other accrued expenses and liabilities	1,480	2,185
Net cash provided by operating activities	167	2,629
Investing activities:		
Issuance of notes receivable	-	(75)
Payments received on notes receivable	73	127
Purchases of property and equipment, net	(1,000)	(446)
Purchases of investments	-	(6,268)
Maturities of investments	1,000	3,279
Sales of investments	500	-
Purchase of intangible asset	(25)	(437)
Net cash provided by (used in) investing activities	548	(3,820)
Financing activities:		
Proceeds from exercise of stock options	74	217
Excess tax benefit on exercise of stock options	14	24
Payment of cash dividends	(3,665)	(1,823)
Payments of short-term bank loans	(25)	-
Net cash used in financing activities	(3,602)	(1,582)
Effect of exchange rate changes on cash	2,806	815
Net decrease in cash	(81)	(1,958)
Cash at beginning of period	32,320	33,732
Cash at end of period	$ 32,239	$ 31,774

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

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

(1) Basis of Presentation

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

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

These condensed consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. Accordingly, these statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Form 10-K for the year ended June 30, 2007.

In the third quarter of 2008, the Company changed the functional currency of its Chinese subsidiaries from the Chinese Renminbi to the U.S. Dollar, since these subsidiaries primarily generate and expend cash in the U.S. Dollar. As a result, the Company recorded a correction of an error in the third quarter of 2008, which resulted in additional interest and other income, net of approximately $559, which represented approximately $389 after tax profit. The Company did not deem this adjustment to be material to any prior quarters in fiscal 2008 based upon both quantitative and qualitative factors. In addition, this adjustment does not impact the 2008 year-to-date reported results. This matter was not corrected for periods prior to June 30, 2007 due to the immateriality of the effects of this in earlier years.

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

(2) Investments

A summary of short-term investments were as follows:

	March 31, 2008		June 30, 2007	
	Fair Value	Cost Basis	Fair Value	Cost Basis
Trading securities				
Corporate equity securities	$ 469	$ 14	$ 877	$ 152
Available for sale securities				
Corporate bonds	700	$ 700	1,187	$ 1,203
Government and agency securities	-	$ -	972	$ 1,000
	$ 1,169		$ 3,036	

The Company has classified all investments with maturity dates of greater than three months as current since it has the ability to redeem them within the year and is available for current operations.

Unrealized losses on trading securities were $138 and $26 for the three months ended March 31, 2008 and 2007, respectively. Unrealized (losses) gains on trading securities were ($84) and $42 for the nine months ended March 31, 2008 and 2007, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(3) Goodwill and Other Intangible Assets

Goodwill of $1,987 and $1,820 as of March 31, 2008 and June 30, 2007, relates to the Health Sciences Segment.

Changes in goodwill are attributable to changes in foreign currency exchange rates used to translate the financial statements of foreign subsidiaries.

(4) Stock-Based Compensation

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

At the annual meeting of shareholders of the Company held December 6, 2007, the shareholders approved the Aceto Corporation 2007 Long-Term Performance Incentive Plan (the "Plan"). The Company has reserved 700 shares of common stock for issuance under the Plan to the Company's employees and non-employee directors. There are five types of awards that may be granted under the Plan-options to purchase common stock, stock appreciation rights, restricted stock, restricted stock units and performance incentive units.

In December 2007, the Company granted 239 options to non-employee directors and employees at an exercise price equal to the market value of the common stock on the date of grant. These options vest over one year and will expire ten years from the date of grant. Compensation expense of $718, 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, 2008 and 2007 was $364 and $266, respectively and $184 and $54 for the three months ended March 31, 2008 and 2007, respectively.

In order to determine the fair value of stock options on the date of grant, the Company uses the Black-Scholes option-pricing model, including an estimate of forfeiture rates. Inherent in this model are assumptions related to expected stock-price volatility, risk-free interest rate, expected life and dividend yield. Expected stock-price volatility is based on the historical daily price changes of the underlying stock which are obtained from public data sources. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. In fiscal 2007, the Company utilized the "simplified" method prescribed in SEC Staff Accounting Bulletin No. 107 to estimate the expected life. The fair values of the options granted were estimated based on the following weighted average assumptions:

	Nine months ended March 31,	
	2008	2007
Expected life	5.6 years	5.5 years
Expected volatility	46.0%	57.0%
Risk-free interest rate	3.55%	4.40%
Dividend yield	2.50%	1.83%

In December 2007, the Company granted 86 shares of restricted common stock and 20 restricted stock units. These shares of restricted common stock and restricted stock units vest over three years and will result in remaining stock-based compensation expense of approximately $590. In accordance with SFAS No. 123(R), compensation expense is recognized on a straight-line basis over the employee's vesting period or to the employee's retirement eligibility date, if earlier, for restricted stock awards. For the three and nine months ended March 31, 2008, the Company recorded stock-based compensation expense of approximately $64 and $263, respectively for these shares of restricted common stock and restricted stock units, of which $186 of compensation expense for the nine months ended March 31, 2008 related to retiree eligibility.

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

(5) Common Stock

On May 8, 2008, the Company's board of directors declared a semi-annual cash dividend of $0.10 per share to be distributed on June 27, 2008 to shareholders of record as of June 16, 2008.

On February 7, 2008, the Company's board of directors declared a special dividend of $0.05 per share, in which $1,222 was paid on March 7, 2008 to shareholders of record as of February 22, 2008.

On December 6, 2007, the Company's board of directors declared a regular semi-annual cash dividend of $0.10 per share in which $2,443 was paid on January 11, 2008 to shareholders of record on December 21, 2007.

(6) Net Income Per Common Share

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

	Nine months ended March 31,		Three months ended March 31,	
	2008	2007	2008	2007
Weighted average shares outstanding	24,344	24,298	24,348	24,318
Dilutive effect of stock options and restricted stock awards and units	462	385	397	482
Diluted weighted average shares outstanding	24,806	24,683	24,745	24,800

There were 1,465 and 1,500 common equivalent shares outstanding as of March 31, 2008 and 2007, respectively, that were not included in the calculation of diluted income per common share for the nine months ended March 31, 2008 and 2007, respectively, because their effect would have been anti-dilutive. There were 1,763 and 1,211 common equivalent shares outstanding as of March 31, 2008 and 2007, respectively, that were not included in the calculation of diluted income per common share for the three months ended March 31, 2008 and 2007, respectively, because their effect would have been anti-dilutive.

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(7) 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,	
	2008	2007	2008	2007
Comprehensive income:				
Net income	$ 5,496	6,006	$ 3,294	$ 1,800
Foreign currency translation adjustment	6,512	2,222	2,462	498
Unrealized gain on available for sale securities	42	54	5	18
Change in fair value of cross currency interest rate swaps	(20)	106	(32)	8
Total	$ 12,030	$ 8,388	$ 5,729	$ 2,324

The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars in accordance with SFAS No. 52, "Foreign Currency Translation." Where the functional currency of a foreign subsidiary is its local currency, balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the period. Exchange gains or losses resulting from the translation of financial statements of foreign operations are accumulated in other comprehensive income. Where the local currency of a foreign subsidiary is not its functional currency, financial statements are translated at either current or historical exchange rates, as appropriate. The foreign currency translation adjustment for the three and nine months ended March 31, 2008 primarily relates to the fluctuation of the conversion rate of the Euro. The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-US subsidiaries.

(8) Income Taxes

The decrease in the net deferred income tax assets of $1,297 for the nine months ended March 31, 2008 related primarily to German tax reform which was enacted in August 2007 that reduces the corporate headline tax rate for businesses from 40% to 30%, as well as implementing a cap on interest deductions and tightening the tax basis for trade tax income. This tax rate reduction became effective for tax years ending after January 1, 2008. Due to the reduction in the overall German tax rate, the deferred income tax asset was revalued during the month of enactment of the tax reform and therefore was reduced by approximately $1,429, which is reflected in the condensed consolidated financial statements for the nine months ended March 31, 2008.

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

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. The Company adopted FIN No. 48 on July 1, 2007 and determined that the adoption of FIN No. 48 did not have a material impact on its consolidated financial statements. In addition, there are no unrecognized tax benefits included in the consolidated balance sheet that would, if recognized, have a material effect on the Company's effective tax rate. The Company is continuing its practice of recognizing interest and penalties related to income tax matters in income tax expense. The total accrual for interest and penalties related to uncertain tax positions was approximately $69 as of March 31, 2008. The Company did not recognize interest or penalties related to income taxes during the three and nine months ended March 31, 2008. The

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Company files U.S. federal, U.S. state, and foreign tax returns, and is generally no longer subject to tax examinations for fiscal years prior to 2005 (in the case of certain foreign tax returns, calendar year 2002).

(9) Commitments and Contingencies

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

Packaging used for one of the Company's crop protection products is covered by a patent, for which the Company had a license that expired in August 2007. The Company has commenced a lawsuit against the current owner of the patent bringing claims based on antitrust and related claims. In December 2007, the Company's motion for a preliminary injunction was denied. In May 2008, the patent owner filed a lawsuit against the Company for patent infringement, among other claims. The patent owner is suing for unspecified monetary damages and a permanent injunction. No trial date has been scheduled. In May 2008, the court granted the patent owner's motion for a temporary restraining order, which temporarily restrains Aceto from using or selling product in packaging covered by the patent until likely a full evidentiary hearing on the motion for a preliminary injunction takes place. The Company has asserted that the claims are unenforceable and believes the claims are without legal merit; however, it is not possible to determine the outcome. The Company intends to continue to vigorously defend this matter. However, management believes that an unfavorable final outcome would not have a material adverse impact on its financial position or liquidity. For the year end June 30, 2007 and 2006, net sales from this crop protection product were $3,244 and $4,832, respectively. The Company's inventory of products in packaging covered by the patent is approximately $2,804 as of March 31, 2008.

In fiscal 2008 and 2007, the Company received letters from the Pulvair Site Group, a group of potentially responsible parties ("PRP Group") who are working with the State of Tennessee (the "State") to remediate a contaminated property in Tennessee called the Pulvair site. The PRP Group has alleged that Aceto shipped hazardous substances to the site which were released into the environment. The State had begun administrative proceedings against the members of the PRP group and Aceto with respect to the cleanup of the Pulvair site and the group has begun to undertake cleanup. The PRP Group is seeking a settlement of approximately $2,100 from the Company for its share to remediate the site contamination. Although the Company acknowledges that it shipped materials to the site for formulation over twenty years ago, the Company believes that the evidence does not show that the hazardous materials sent by Aceto to the site have significantly contributed to the contamination of the environment. Accordingly, the Company believes that the settlement offer is unreasonable. Alternatively, counsel to the PRP Group has proposed that Aceto join it as a participating member and pay 3.16% of the PRP Group's cost. The Company believes that this percentage is high because it is based on the total volume of materials that Aceto sent to the site, most of which were non-hazardous substances and as such, believes that, at most, it is a de minimus contributor to the site contamination. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not known. However, management believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

The Company has environmental remediation obligations in connection with Arsynco's former manufacturing facility located in Carlstadt, New Jersey, which was closed in 1993 and is currently held for sale. During fiscal 2007, based on continued monitoring of the contamination at the site and the current proposed plan of remediation, the Company estimated that the costs of remediation could be between $6,136 and $7,611. As of March 31, 2008 and June 30,

2007, a liability of $6,136 is included in the accompanying condensed consolidated balance sheets. 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.

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

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In March 2006, Arsynco received notice from the EPA of its status as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for a site described as the Berry's Creek Study Area. Arsynco is one of over 150 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.

A subsidiary of the Company markets certain agricultural chemicals which are subject to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). FIFRA requires that test data be provided to the 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, payments have been in the range of $250 - $500 per year. The Company may be required to make additional payments in the future.

In June 2006, the Company negotiated a lease termination with its landlord for the facility previously occupied by CDC and Magnum. In connection with the lease termination, the landlord and a third party entered into a long-term lease for which the Company guaranteed the rental payments by the third party through September 30, 2009. As of March 31, 2008, the aggregate future rental payments of the third party that are guaranteed by the Company are $457 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 $359 and $702 as of March 31, 2008 and June 30, 2007, 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.

(10) Recent Accounting Pronouncements

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. In February 2008, the FASB provided a one-year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Management is currently assessing the impact of SFAS No. 157 on the consolidated financial position and results of operations.

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.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards” (EITF No. 06-11). EITF No. 06-11 provides guidance regarding how an entity should recognize the tax benefit received as a result of dividends paid to holders of share-based compensation awards and charged to retained earnings according to SFAS No. 123(R), and will become

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effective in the first quarter of 2009. Management does not expect EITF No. 06-11 to have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No 51" (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent's ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent's ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt these new requirements in its first quarter of fiscal 2010. Management is currently evaluating the impact of SFAS No. 160 on the consolidated financial position and results of operations.

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

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities— An Amendment of FASB Statement No. 133" (SFAS No. 161). SFAS No. 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 on its consolidated financial statements.

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

(11) Segment Information

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

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

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

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

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, 2008 and 2007:

	Health Sciences	Chemicals & Colorants	Crop Protection	Consolidated Totals
2008				
Net sales	$ 148,522	$ 94,036	$ 12,330	$ 254,888
Gross profit	27,420	13,323	2,342	43,085
2007				
Net sales	$ 124,013	$ 87,913	$ 14,364	$ 226,290
Gross profit	22,835	11,528	3,636	37,999

Three Months Ended March 31, 2008 and 2007:

	Health Sciences	Chemicals & Colorants	Crop Protection	Consolidated Totals
2008				
Net sales	$ 58,199	$ 35,871	$ 4,185	$ 98,255
Gross profit	9,963	5,336	744	16,043

2007

Net sales	$ 41,358	$ 30,528	$ 3,993	$ 75,879
Gross profit	7,420	4,260	1,196	12,876

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Aceto Corporation

We have reviewed the condensed consolidated balance sheet of Aceto Corporation and subsidiaries as of March 31, 2008 and the related condensed consolidated statements of income for the three-month and nine-month periods ended March 31, 2008 and 2007, and the related condensed consolidated statements of cash flows for the nine-month periods ended March 31, 2008 and 2007 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended March 31, 2008. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Aceto Corporation and subsidiaries as of June 30, 2007, 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 5, 2007, 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, 2007, 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, 2008

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 Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates and projections about our industry and our business. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” or variations of thos 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, the nature and pricing of competing 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 amounts are expressed in thousands, except for share prices and per-share amounts.

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

Executive Summary

We are reporting net sales of $254,888 for the nine months ended March 31, 2008, which represents a 12.6% increase from the $226,290 reported in the comparable prior period. Gross profit for the nine months ended March 31, 2008 was $43,085 and our gross margin was 16.9% as compared to gross profit of $37,999 and gross margin of 16.8% in the comparable prior period. Our selling, general and administrative costs for the nine months ended March 31, 2008 increased to $32,924, an increase of 14.6% over the $28,722 we reported in the prior period. Our net income decreased to $5,496, or $0.22 per diluted share, a decrease of 8.5% compared to the prior period.

Our financial position as of March 31, 2008 remains strong, as we had cash of $32,239, working capital of $123,568, no long-term debt and shareholders’ equity of $133,959.

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

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

We typically partner with both customers and suppliers years in advance of a drug coming off patent to provide the generic equivalent. We believe we have a pipeline of new APIs poised to reach commercial levels over the coming years as the patents on existing drugs expire, both in the United States and Europe. In addition, we continue to explore opportunities to provide a second-source option for existing generic drugs with approved abbreviated new drug applications ("ANDAs"). The opportunities that we are looking for are to supply the APIs for the more mature

generic drugs where pricing has stabilized following the dramatic decreases in price that these drugs experienced after coming off patent. As is the case in the generic industry, the entrance into the market of other generic competition generally has a negative impact on the pricing of the affected products.

By leveraging our worldwide sourcing and regulatory capabilities, we believe we can be an alternative lower cost, second-source provider of existing APIs to generic drug companies.

The Chemicals & Colorants segment is a major supplier to the many different industries that require outstanding performance from chemical raw materials and additives. Products that fall within this segment include intermediates for dyes, pigments and agrochemicals. We provide chemicals used to make plastics, surface coatings, textiles, lubricants, flavors and fragrances. Many of our raw materials are also used in high-tech products like high-end electronic parts (circuit boards and computer chips) and binders for specialized rocket fuels. We are currently responding to the changing needs of our customers in the color producing industry by taking our resources and knowledge downstream as a supplier of select organic pigments. We expect that continued global Gross Domestic Product growth will drive higher demand for the chemical industry, especially in China and other emerging regions of the world. With supply growth limited, we expect that industry supply/demand balances will remain favorable. However, continued volatility in energy costs will add uncertainty to our profit outlook.

The Crop Protection segment sells herbicides, fungicides, insecticides, and other agricultural chemicals to customers, primarily located in the United States and Western Europe. 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 we have received. Our plan is to develop over time a pipeline of additional products in a similar manner.

Our main business strengths are sourcing, regulatory support, quality control, marketing and distribution. With a physical presence in ten countries, we distribute over 1,000 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 MD&A section, we explain our general financial condition and results of operations, including the following:

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

As you read this MD&A section, refer to the accompanying condensed consolidated statements of income, which present the results of our operations for the three and nine months ended March 31, 2008 and 2007. We analyze and explain the differences between periods in the specific line items of the condensed consolidated statements of income.

Critical Accounting Estimates and Policies

As disclosed in our Form 10-K for the year ended June 30, 2007, 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 other indefinite-lived intangible assets, long-lived assets, environmental and other

contingencies, income taxes and stock-based compensation. We base our estimates on various factors, including historical experience, advice from outside subject-matter experts, and various assumptions that we believe to be reasonable under the circumstances, which together form the basis for our making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Since June 30, 2007, 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, 2008 Compared to Nine Months Ended March 31, 2007

Net Sales by Segment
Nine months ended March 31,

Segment	2008 Net sales	2008 % of total	2007 Net sales	2007 % of total	Comparison 2008 Over/(Under) 2007 $ change	Comparison 2008 Over/(Under) 2007 % change
Health Sciences	$ 148,522	58.3%	$ 124,013	54.8%	$ 24,509	19.8%
Chemicals & Colorants	94,036	36.9	87,913	38.9	6,123	7.0
Crop Protection	12,330	4.8	14,364	6.3	(2,034)	(14.2)
Net sales	$ 254,888	100.0%	$ 226,290	100.0%	$ 28,598	12.6%

Gross Profit by Segment
Nine months ended March 31,

Segment	2008 Gross profit	2008 % of sales	2007 Gross Profit	2007 % of Sales	Comparison 2008 Over/(Under) 2007 $ change	Comparison 2008 Over/(Under) 2007 % Change
Health Sciences	$ 27,420	18.5%	$ 22,835	18.4%	$ 4,585	20.1%
Chemicals & Colorants	13,323	14.2	11,528	13.1	1,795	15.6
Crop Protection	2,342	19.0	3,636	25.3	(1,294)	(35.6)
Gross Profit	$ 43,085	16.9%	$ 37,999	16.8%	$ 5,086	13.4%

Net Sales

Net sales increased $28,598 or 12.6%, to $254,888 for the nine months ended March 31, 2008, compared with $226,290 for the prior period. We reported sales increases in our Health Sciences and Chemicals and Colorants segments which were partially offset by a sales decrease in our Crop Protection segment, as explained below.

Health Sciences

Net sales for the Health Sciences segment increased by $24,509 for the nine months ended March 31, 2008, to $148,522, which represents a 19.8% increase from net sales of $124,013 for the prior period. This increase is due to various factors including increased sales from our foreign operations of $14,455, specifically our European operations and a $3,744 rise in sales of our pharmaceutical intermediates. In addition, our domestic generics product group experienced an increase in sales of $6,801. The domestic sales increase for the nine months ended March 31, 2008 was due to the volume of re-orders for existing products as well as realization of new products from our pipeline.

Chemicals & Colorants

Net sales for the Chemicals & Colorants segment were $94,036 for the nine months ended March 31, 2008, which represents a $6,123 or 7.0% increase over the $87,913 for the prior period. Our chemical business is diverse in terms of products, customers and consuming markets. The increase in sales from this segment is partially attributable to an increase of $4,425 in sales of pigment and dye intermediates, $4,109 increase in sales for chemicals used in aroma products and $1,095 rise in sales of chemicals used to make surface coatings. This increase is offset in part by $2,633 decline in sales of our products sold to the food, beverage and cosmetics industries.

Crop Protection

Net sales for the Crop Protection segment decreased to $12,330 for the nine months ended March 31, 2008, a decrease of $2,034, or 14.2%, from net sales of $14,364 for the prior period. The decrease over the prior period is primarily attributed to decreased sales of an herbicide used for sugar cane.

Gross Profit

Gross profit increased $5,086 to $43,085 (16.9% of net sales) for the nine months ended March 31, 2008, as compared to $37,999 (16.8% of net sales) for the prior period.

Health Sciences

Health Sciences' gross profit of $27,420 for the nine months ended March 31, 2008 was $4,585 or 20.1% higher than the prior period. This increase in gross profit was attributable to $2,910 increase in gross profit primarily from our European operations as well as the overall increase in sales volume. Gross margin for the nine months ended March 31, 2008 increased slightly to 18.5% from 18.4% for the prior period due primarily to favorable product mix in our nutraceutical products.

Chemicals & Colorants

Gross profit for the nine months ended March 31, 2008 increased by $1,795, or 15.6%, over the prior period. The gross margin was 14.2% for the nine months ended March 31, 2008 compared to 13.1% for the prior period. The increase in the gross profit and gross margin percentage primarily relates to the increase in sales volume and positive product mix on aroma chemicals. In addition, there was a $330 settlement of an anti-dumping claim included in the prior year cost of sales.

Crop Protection

Gross profit for the Crop Protection segment decreased to $2,342 for the nine months ended March 31, 2008, versus $3,636 for the prior period, a decrease of $1,294 or 35.6%. Gross margin for the quarter was 19.0% compared to the

prior period gross margin of 25.3%. The decrease in the gross profit and gross margin percentage primarily relates to a decline in sales volume of a particular herbicide as described above and a decrease in gross profit related to a sprout inhibitor that extends the storage life of potatoes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased $4,202, or 14.6%, to $32,924 for the nine months ended March 31, 2008 compared to $28,722 for the prior period. As a percentage of sales, SG&A increased slightly to 12.9% for the nine months ended March 31, 2008 versus 12.7% for the prior period. The increase in SG&A is partially attributed to an increase of $1,491 in legal expenses, the majority of which has been incurred relating to an antitrust case that the Company has previously commenced against the owner of certain licensed technology used with one of our crop protection products. Personnel related costs increased by $1,777, of which $1,148 relates to our foreign operations and $361 relates to stock-based compensation. In addition, commission expense increased by $233 due to increased sales. Additionally, the prior year amount was reduced by $243 of proceeds received from credit insurance, which there was no comparable amount received during the nine months ended March 31, 2008.

Research and Development Expenses

Research and development expenses ("R&D") increased $621 over the prior period to $632 for the nine months ended March 31, 2008. R&D relates to the development of two finished dosage form generic pharmaceutical products to be distributed in Europe.

Operating Income

For the nine months ended March 31, 2008, operating income was $9,529 compared to $9,266 in the prior period, an increase of $263 or 2.8%. This increase was due to the overall increase in gross profit of $5,086 offset in part by the $4,823 increase in SG&A and R&D expenses.

Interest and Other Income, Net

Interest and other income, net was $596 for the nine months ended March 31, 2008 versus $366 for the prior period. The primary reason for this fluctuation is due to the Company changing the functional currency of its Chinese subsidiaries from the Chinese Renminbi to the U.S. Dollar, since these subsidiaries primarily generate and expend cash in the U.S. Dollar. As a result, the Company recorded a correction of an error in the third quarter of 2008, which resulted in additional interest and other income, net of approximately $559, which represented approximately $389 after tax profit. The Company did not deem this adjustment to be material to any prior quarters in fiscal 2008 based upon both quantitative and qualitative factors. In addition, this adjustment does not impact the 2008 year-to-date reported results. This matter was not corrected for periods prior to June 30, 2007 due to the immateriality of the effects of this in earlier years. Beginning in 2006, the Chinese government began to revalue the Chinese Renminbi against other currencies, including the U.S. Dollar. The decision by the Chinese government to no longer peg the Renminbi to the U.S. Dollar has caused a reduction in value of dollar denominated assets held in China, which was particularly experienced in fiscal 2008. The increase in interest and other income, net was partially offset by $115 decrease in other income related to a government subsidy paid annually for doing business in a free trade zone in Shanghai, China and $126 increase in unrealized loss on trading securities.

Provision for Income Taxes

The effective tax rate for the nine months ended March 31, 2008 increased to 45.4% from 37.1% for the prior period. The increase in the effective tax rate was primarily due to German tax reform, which was enacted in August 2007, that reduces the corporate headline tax rate for businesses from 40% to 30%, as well as implementing a cap on

interest deductions and tightening the tax basis for trade tax income. This tax rate reduction became effective for tax years ending after January 1, 2008. Due to the future reduction in the overall German tax rate, the deferred income tax asset was revalued during the month of enactment of the tax reform and therefore was reduced by approximately $1,429, which is reflected in the condensed consolidated financial statements for the nine months ended March 31,

2008. Without this charge, we expect the fiscal 2008 effective tax rate to be 30.5% as compared to last year's effective tax rate of 33.8%.

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Net Sales by Segment
Three months ended March 31,

Segment	2008 Net sales	2008 % of total	2007 Net sales	2007 % of total	Comparison 2008 Over/(Under) 2007 $ Change	Comparison 2008 Over/(Under) 2007 % change
Health Sciences	$ 58,199	59.2%	$ 41,358	54.5%	$ 16,841	40.7%
Chemicals & Colorants	35,871	36.5	30,528	40.2	5,343	17.5
Crop Protection	4,185	4.3	3,993	5.3	192	4.8
Net sales	$ 98,255	100.0%	$ 75,879	100.0%	$ 22,376	29.5%

Gross Profit by Segment
Three months ended March 31,

Segment	2008 Gross profit	2008 % of sales	2007 Gross Profit	2007 % of sales	Comparison 2008 Over/(Under) 2007 $ Change	Comparison 2008 Over/(Under) 2007 % change
Health Sciences	$ 9,963	17.1%	$ 7,420	17.9%	$ 2,543	34.3%
Chemicals & Colorants	5,336	14.9	4,260	14.0	1,076	25.3
Crop Protection	744	17.8	1,196	30.0	(452)	(37.8)
Gross profit	$ 16,043	16.3%	$ 12,876	17.0%	$ 3,167	24.6%

Net Sales

Net sales increased $22,376, or 29.5%, to $98,255 for the three months ended March 31, 2008, compared with $75,879 for the prior period. We reported sales increases in all of our segments as explained below.

Health Sciences

Net sales for the Health Sciences segment increased by $16,841 for the three months ended March 31, 2008, to $58,199, which represents a 40.7% increase from net sales of $41,358 for the prior period. This increase is primarily the result of increased sales from our foreign operations of $11,671, specifically our European operations as well as an increase of $3,722 in sales of our domestic generic products group. The domestic sales increase for the three months ended March 31, 2008 was due to the volume of re-orders for existing products as well as realization of new products from our pipeline.

Chemicals & Colorants

Net sales for the Chemicals & Colorants segment were $35,871 for the three months ended March 31, 2008, an increase of $5,343 from net sales of $30,528 for the prior period. Our chemical business consists of a variety of products, customers and consuming markets. The increase of 17.5%, over the prior period is partially attributable to an increase in sales of agricultural, dye, pigment and other intermediates which together increased $3,769. The

increase was also the result of $1,837 increase in sales for chemicals used in aroma products and as well as $1,099 increase in sales of chemicals used in surface coatings.

Crop Protection

Net sales for the Crop Protection segment were relatively consistent to the prior year period, increasing by $192 or 4.8%. This segment experienced an increase in sales of an insecticide offset by a decrease in sales of our sprout inhibitor products, which are utilized on potato crops.

Gross Profit

Gross profit increased to $16,043 (16.3% of net sales) for the three months ended March 31, 2008, as compared to $12,876 (17.0% of net sales) for the prior period.

Health Sciences

Gross profit for the three months ended March 31, 2008 increased by $2,543, or 34.3%, over the prior period. The gross margin was 17.1% for the three months ended March 31, 2008 compared to 17.9% for the prior period. The increase in gross profit was attributable to the overall increase in sales volume. Gross margin decreased due primarily to an unfavorable product mix in our domestic generics product group.

Chemicals & Colorants

Chemicals and Colorants' gross profit of $5,336 for the three months ended March 31, 2008 was $1,076 or 25.3% higher than the prior period. The gross margin was 14.9% for the three months ended March 31, 2008 compared to 14.0% for the prior period. The increase in the gross profit and the gross margin percentage is due to an increase of $611 of gross profit on aroma chemicals due to increased sales volume as well as a positive product mix on these aroma chemicals. In addition, gross profit on surface coating chemicals increased by $337 over the prior period.

Crop Protection

Gross profit for the Crop Protection segment decreased to $744 for the three months ended March 31, 2008, versus $1,196 for the prior period, a decrease of $452 or 37.8%. Gross margin for the quarter was 17.8% compared to the prior period gross margin of 30.0%. The decrease in the gross profit and gross margin percentage primarily relates to a decline in sales volume of our sprout inhibitor products as described above and a decline in gross margin related to an herbicide used for sugar cane.

Selling, General and Administrative Expenses

SG&A increased $1,833 or 18.8%, to $11,560 for the three months ended March 31, 2008 compared to $9,727 for the prior period. As a percentage of sales, SG&A decreased to 11.8% for the three months ended March 31, 2008 versus 12.8% for the prior period. The increase in SG&A relates to $1,331 rise in personnel related costs including annual salary increases and an increase of $653 in our foreign operations. SG&A also increased due to a $444 increase in sales and marketing expenses, which is directly related to the increase in sales.

Research and Development Expenses

R&D increased $274 over the prior period for the three months ended March 31, 2008. R&D relates to the development of two finished dosage form generic pharmaceutical products to be distributed in Europe.

Operating Income

For the three months ended March 31, 2008, operating income was $4,204 compared to $3,144 in the prior period, an increase of $1,060 or 33.7%. This increase was due to the overall increase in gross profit of $3,167 offset in part, by the $2,107 increase in SG&A and R&D expenses.

Interest and Other Income, Net

Interest and other income, net was $610 for the three months ended March 31, 2008, which represents an increase of $500 over the prior period. The primary reason for this fluctuation is due to the Company changing the functional currency of its Chinese subsidiaries from the Chinese Renminbi to the U.S. Dollar, since these subsidiaries primarily generate and expend cash in the U.S. Dollar. As a result, the Company recorded a correction of an error in the third quarter of 2008, which resulted in additional interest and other income, net of approximately $559, which represented approximately $389 after tax profit. The Company did not deem this adjustment to be material to any prior quarters in fiscal 2008 based upon both quantitative and qualitative factors. In addition, this adjustment does not impact the 2008 year-to-date reported results. This matter was not corrected for periods prior to June 30, 2007 due to the immateriality of the effects of this in earlier years. Beginning in 2006, the Chinese government began to revalue the Chinese Renminbi against other currencies, including the U.S. Dollar. The decision by the Chinese government to no longer peg the Renminbi to the U.S. Dollar has caused a reduction in value of dollar denominated assets held in China, which was particularly experienced in fiscal 2008.

Provision for Income Taxes

The effective tax rate for the three months ended March 31, 2008 was 31.1%, compared to 44.6% for the prior period. The decrease in the effective rate primarily relates to German tax reform, which was enacted in August 2007, that reduces the corporate headline tax rate for businesses from 40% to 30%, as well as implementing a cap on interest deductions and tightening the tax basis for trade tax income. This tax rate reduction became effective for tax years ending after January 1, 2008.

Liquidity and Capital Resources

Cash Flows

At March 31, 2008, we had $32,239 in cash, $1,169 in short-term investments and no short-term bank loans. Working capital was $123,568 at March 31, 2008 versus $112,930 at June 30, 2007.

Our cash position at March 31, 2008 decreased $81 from the amount at June 30, 2007. Operating activities for the nine months ended March 31, 2008 provided cash of $167, for this period, as compared to cash provided by operations of $2,629 for the comparable 2007 period. The $167 was comprised of $5,496 in net income and $4,003 derived from adjustments for non-cash items offset by a net $9,332 decrease from changes in operating assets and liabilities. The non-cash items included $1,935 in depreciation and amortization expense and $1,297 for the deferred income taxes provision. Accounts receivable increased $10,854 during the nine months ended March 31, 2008, due to increased sales during the third quarter of 2008 as compared to the fourth quarter of 2007. Inventories increased by approximately $295 and accounts payable increased by $1,224 due to the increase in the Health Sciences segment for inventory on-hand related to our European operations. In addition, the Company is carrying more stock for an intermediate dye in the Chemicals and Colorants segment that is purchased from China, due to a possible supplier interruption related to the Olympics to be held in China in the summer of 2008. Other accrued expenses and long-term liabilities increased $1,480 during the nine months ended March 31, 2008, due primarily to an increase in accrued expenses for our foreign subsidiaries related to timing of income tax payments and VAT (value added tax) offset by a decrease in accrued expenses related to a joint venture. Other receivables increased $580 due to an increase in VAT receivables in our European subsidiaries due to increased sales. Other assets increased $720 due primarily to increases in retirement-related assets. 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 $2,629, for this period. The $2,629 was comprised of $6,006 in net income and $3,209 derived from adjustments for non-cash items, offset by a net $6,586 decrease from changes in operating assets and liabilities.

Investing activities for the nine months ended March 31, 2008 provided cash of $548 primarily related to maturities and sales of available for sale investments offset by the purchases of property and equipment. Investing activities for the nine months ended March 31, 2007 used cash of $3,820 primarily related to purchases of investments of $6,268 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.

Financing activities for the nine months ended March 31, 2008 used cash of $3,602 primarily from the payments of dividends of $3,665. Financing activities for the nine months ended March 31, 2007 used cash of $1,582 primarily from the payments of dividends of $1,823.

On May 8, 2008, the Company's board of directors declared a semi-annual cash dividend of $0.10 per share to be distributed on June 27, 2008 to shareholders of record as of June 16, 2008.

Credit Facilities

We have available credit facilities with certain foreign financial institutions. These facilities provide us with a line of credit of $22,841, as of March 31, 2008. We are not subject to any financial covenants under these arrangements.

In June 2007, we amended our revolving credit agreement with a financial institution that expires June 30, 2010, and provides for available credit of $10,000. At March 31, 2008, we had utilized $359 in letters of credit, leaving $9,641 of this facility unused. Under the credit agreement, we may obtain credit through direct borrowings and letters of credit. Our obligations under the credit agreement are guaranteed by certain of our subsidiaries and are secured by 65% of the capital of certain of our non-domestic subsidiaries. There is no borrowing base on the credit agreement. Interest under the credit agreement is at LIBOR plus 1.50%. The credit agreement contains several covenants requiring, among other things, minimum levels of debt service and tangible net worth. We are also subject to certain restrictive debt covenants, including covenants governing liens, limitations on indebtedness, guarantees, sale of assets, sales of receivables, and loans and investments. We were in compliance with all covenants at March 31, 2008.

Working Capital Outlook

Working capital was $123,568 at March 31, 2008 versus $112,930 at June 30, 2007. The increase in working capital was attributable to various factors including net income and an increase in trade receivables during the period due to increased sales. We continually evaluate possible acquisitions of or investments in businesses that are complementary to our own, and such transactions may require the use of cash. In October 2007, the Company formed a joint venture in connection with their crop protection business. The joint venture will require us to acquire product registration costs and related data filed with the United States Environmental Protection Agency, which could approximate $2,100 in fiscal 2008. 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 cash dividends for the next twelve months. We may obtain additional credit facilities to enhance our liquidity.

Impact of New Accounting Pronouncements

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.The Company adopted FIN No. 48 on July 1, 2007 and determined that the adoption of FIN No. 48 did not have a material impact on its consolidated financial statements. In addition, there are no unrecognized tax benefits included in our consolidated balance sheet that would, if recognized, have a material effect on our effective tax rate. The Company is continuing its practice of recognizing interest and penalties related to income tax matters in income tax expense. The total accrual for interest and penalties related to uncertain tax positions was approximately $69 as of March 31, 2008. The Company did not recognize interest or penalties related to income taxes during the three and nine months ended March 31, 2008. The Company files U.S. federal, U.S. state, and foreign tax returns, and is generally no longer subject to tax examinations for fiscal years prior to 2005 (in the case of certain foreign tax returns, calendar year 2002).

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. In February 2008, the FASB provided a one-year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities recognized or

disclosed at fair value in the financial statements on a nonrecurring basis. We are currently assessing the impact of SFAS No. 157 on our consolidated financial position and results of operations.

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.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards” (EITF No. 06-11). EITF No. 06-11 provides guidance regarding how an entity should recognize the tax benefit received as a result of dividends paid to holders of share-based compensation awards and charged to retained earnings according to SFAS No. 123(R), and will become effective in the first quarter of 2009. Management does not expect EITF No. 06-11 to have a material impact on the Company’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No 51” (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent’s ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent’s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt these new requirements in its first quarter of fiscal 2010. Management is currently evaluating the impact of SFAS No. 160 on the consolidated financial position and results of operations.

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

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities— An Amendment of FASB Statement No. 133” (SFAS No. 161). SFAS No. 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Sensitive Instruments

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

Investment Market Price Risk

We had short-term investments of $1,169 at March 31, 2008. 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 $117 as of March 31, 2008. 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, 2008, we had foreign currency contracts outstanding that had a notional amount of $20,685. 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, 2008, 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, 2008, was $(95). 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 condensed consolidated statements of income. Since our interest rate swap qualifies as a hedging activity, the change in their fair value, amounting to $(20) and $106 for the nine months ended March 31, 2008 and 2007, respectively, is recorded in accumulated other comprehensive income included in the accompanying condensed 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, 2008, we had translation exposure to various foreign currencies, with the most significant being the Euro. The potential loss as of March 31, 2008, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounted to $6,902. 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 were analyzed to determine their sensitivity to interest rate changes. In this sensitivity analysis, we used the same change in interest rate for all maturities. All other factors were held constant. If there were an adverse change in interest rates of 10%, the expected effect on net income related to our financial instruments would be immaterial. However, there can be no assurances that interest rates will not significantly affect our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our

management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer, with assistance from other members of our management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2008 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, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under Part I- in "Item 1A. Risk Factors" in our Form 10-K for the year ended June 30, 2007 other than changes to the first two risk factors set forth below and the addition of the third risk factor set forth below:

If we are unable to continue to use patented 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 use the patented technology used in packaging of certain of our crop protection products. In May 2008, after we filed an anti-trust lawsuit against the owner of the patent, the patent owner filed a separate action for patent infringement, among other claims, and obtained a temporary restraining order, which will temporarily restrain us from using or selling product in packaging covered by the patent until likely a full evidentiary hearing on a motion for preliminary injunction takes place. If the patent owner is successful in the actions, we will no longer be able to use such patented technology which will result in us being prevented from making future sales of new products that use the patented technology as well as sales of our current inventory that use this patented technology. Accordingly, our inability to continue to sell such products would have an adverse affect on our profitability. For the year end June 30, 2007 and 2006, net sales from this crop protection product were $3,244 and $4,832, respectively. Our inventory of products that use such patented technology is approximately $2,804 as of March 31, 2008. We may also incur substantial costs in enforcement and defense of our rights related to our products.

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, including manufacturing delays caused by plant shutdowns related to the 2008 Summer Olympics in Beijing, may occur with these and other outside sources. If such problems occur, we cannot assure that we will be able to deliver our products to our customers profitably or on time.

China reduces tax credits paid to export manufacturers.

The Chinese government recently cut the tax credits that exporters get on more than 2,200 products, including many of our products that are manufactured in China. These tax credits were adopted more than twenty (20) years ago to provide Chinese companies with tax breaks on revenues derived from exports. The cut in tax credits will cause the price of many items that are sourced in China to increase, which could adversely impact the Company's profitability. The Company will attempt to increase selling prices for certain of these products to recover a portion of the increased cost. However, there can be no assurance that we will be able to pass along future cost increases, if any, to our

customers which could also have an adverse impact on our results of operations and financial condition.

Item 6. Exhibits

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

15.1 Awareness letter from independent registered public accounting firm

31.1 Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

ACETO CORPORATION

DATE May 9, 2008

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

DATE May 9, 2008

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