



07080925

2007 ANNUAL REPORT



PROCESSED  
OCT 31 2007  
THOMSON  
FINANCIAL

REC'D S.E.C.

OCT 26 2007

1086

PHARMACEUTICAL • BIOPHARMACEUTICAL • SPECIALTY CHEMICALS • AGRICULTURAL

**Global Leader in Sourcing,  
Regulatory Support,  
Marketing & Distribution**

**60<sup>th</sup>**  
ANNIVERSARY

# Company Profile



ACETO

Worldwide

companies

Aceto's business is divided into

Health Sciences (55% of fiscal 2007 sales)

and Crop Protection (45% of fiscal 2007 sales).

Importantly, beyond "traditional distribution," we add value for our customers and suppliers in terms of product development, providing access to new markets, product life cycle regulatory support, financial planning and logistics. Our operational focus is on sales, marketing and distribution of product used in manufacturing of pharmaceuticals.

**Facilitating global sourcing, regulatory support, marketing and distribution of chemicals used principally as raw materials in the pharmaceutical, agricultural, color, surface coating/ink and general chemical industries.**

# Financial Highlights

Fiscal Years Ended June 30,	2007	2006	2005	2004 <sup>(1)</sup>	2003
<i>In thousands, except per share data</i>					
Net Sales	<b>\$313,473</b>	\$297,328	\$313,431	\$296,646	\$270,116
Net Income <sup>(2)</sup>	<b>10,212</b>	9,237	10,015	13,067	7,595
At Year-End					
Cash and Short-Term Investments	<b>\$ 35,356</b>	\$ 37,041	\$ 25,018	\$ 33,218	\$ 21,140
Working Capital	<b>112,930</b>	104,707	94,249	86,420	72,208
Long-Term Bank Debt	<b>—</b>	—	—	—	—
Shareholders' Equity	<b>124,827</b>	115,053	107,655	100,266	84,569
Per Common Share <sup>(3)</sup>					
Net Income (diluted) <sup>(2)</sup>	<b>\$ 0.41</b>	\$0.38	\$0.41	\$0.53	\$0.32
Shareholders' Equity	<b>\$ 5.13</b>	\$4.74	\$4.43	\$4.16	\$3.58
Cash Dividends	<b>\$0.175</b>	\$0.15	\$0.15	\$0.11	\$0.10

(1) Includes the acquisition of Pharma Waldhof on December 31, 2003.

(2) Fiscal 2003 net income includes a \$1,873 (\$0.08 per diluted share) charge for a cumulative effect of an accounting change resulting from an impairment of goodwill.

(3) Adjusted for stock splits, effected in the form of dividends, as appropriate.

# Dear Fellow Shareholders:

## A Strong Foundation for Future Growth

- Finished Dosage Form Generic Drugs
- Vaccines for Companion Animals
- Entering the Japanese Pharmaceutical Market



Leonard S. Schwartz  
Chairman,  
Chief Executive Officer and President

In fiscal 2007, as we celebrated our 60<sup>th</sup> anniversary as a company, all of our core business segments, Health Sciences, Chemicals & Colorants, and Crop Protection, performed extremely well in the face of challenging conditions in the chemical and pharmaceutical industries. In fact, in fiscal 2007 we reported all-time record levels of sales and gross profit for Aceto. I am pleased to share with you our 2007 fiscal year results and then highlight some of the strategic initiatives we believe will be the drivers for Aceto's future growth.

### Fiscal 2007 Financial Results

For the fiscal year ended June 30, 2007, net sales grew 5.4% to a record level of \$313.5 million compared to \$297.3 million in fiscal 2006. Our gross profit increased 6.9% to \$54.5 million, a record level for the Company, compared to \$51.0 million in fiscal 2006 and our gross profit margin increased to 17.4% from 17.1% in the last fiscal year. Operating income increased 21.2% to \$15.1 million in fiscal 2007 from \$12.4 million in fiscal 2006. We are particularly gratified by our ability to maintain tight control on selling, general & administrative expenses which increased only 2.3% in fiscal 2007, in spite of continuing expenditures on our strategic initiatives and the continuing development of our infrastructure in China, India and now, Japan. Pre-tax income from continued operations increased 16.3% to \$15.4 million in fiscal 2007 from \$13.3 million in fiscal 2006. Net income was \$10.2 million or \$0.41 per diluted share in fiscal 2007, compared to \$9.2 million or \$0.38 per diluted share in fiscal 2006.

### Strategic Initiatives

Several years ago, we began to see the effect that intense competition was having on our core active pharmaceutical ingredients (API) business and came to the conclusion that the competition would only continue to intensify. A perfect example of the effect of this competition is illustrated as follows. In fiscal 2005, we had two API's which generated sales of \$19.8 million; however, in fiscal 2006, as a result of intense competition they generated only \$3.8 million in sales. In this highly competitive market, in order for the Company to achieve sustainable growth, we decided it would be necessary for us to look for ways to grow our core business as well as parallel businesses that could be built utilizing expertise that had been developed in our core businesses. We decided to look at the following areas:

- Globalizing our Chemicals & Colorants business
- Expanding organic (color) pigments business
- Enhancing our Crop Protection business by acquiring additional new products for distribution by the acquisition or development of intellectual property
- Moving into Eastern Europe

We called these our "Strategic Initiatives" and spent considerable time and resources in the past several years to make these efforts successful. For example in fiscal 2004, 96% of our Chemicals & Colorants business was domestic; however, in fiscal 2007 that percentage had dropped to only 86% which was accomplished by developing business in Europe and south Asia. We opened an office in Poland and, as a result, have expanded our

60<sup>th</sup>  
ANNIVERSARY

business in Eastern Europe. Sales in our organic pigments business have grown to approximately \$9 million in fiscal 2007 and are expected to grow even more in 2008 and beyond. Our Crop Protection business has expanded with the successful launch of Asulam and several smaller products, and we now have a robust pipeline of products.

As a result of our efforts, we no longer look at these as "Strategic Initiatives," we now see them as valuable pieces of our ongoing core business. Although to date, we have not recognized any revenues from our current Strategic Initiatives, namely companion animal vaccines, finished dosage form generic drugs and entering the Japanese pharmaceutical market, we are confident that our efforts in each of these areas will be equally successful as our previous "Strategic Initiatives" have proven to be.

#### **Fiscal 2007 Developments**

##### ***Finished Dosage Form Generic Drugs***

A focus for Aceto as we entered fiscal 2007 was our initiative to sell generic drugs in finished dosage forms under the Aceto brand. In February 2007, we announced that this strategic initiative had become a reality. Aceto Pharma Corp., a wholly owned subsidiary of Aceto Corporation, established for the express purpose of distributing Aceto branded human and veterinary generic pharmaceuticals in the United States, had made a successful entrance into the market by launching and taking orders for its first product, isoflurane, an inhalable anesthetic for human and veterinary use with a current U.S. market of more than \$75 million.

During the year, we have enhanced our internal capabilities and are focusing our efforts on establishing relationships with other suppliers of Abbreviated New Drug Application (ANDA) approved products which we hope to distribute under the Aceto brand in the United States. We believe that there are no other distribution companies attempting to do what we are doing, attesting to Aceto's biggest competitive strength, the unique

marriage of our global sourcing and regulatory capabilities. Our business model provides access to the U.S. generic pharmaceutical market for mid-size foreign companies.

With respect to regulatory compliance, we are confident that we have achieved the capability to satisfy all of our regulatory requirements while maintaining our status as a distributor.

##### ***Vaccines for Companion Animals***

In fiscal 2007, we suffered a setback in our efforts to have a 4-way vaccine for use in the canine market approved by the USDA. As a result of a misunderstanding with the USDA regarding the testing protocol they had previously approved as the basis for our vaccines label claims, it will be necessary for the animal testing to be redone under a revised testing protocol. There will also be a requisite field safety test that needs to be completed.

On a much more positive note, the USDA did acknowledge that notwithstanding the protocol approval error, the animal testing results which had already been completed under the original testing protocol indicated that the vaccine was, as we expected it would be, "efficacious." While we continue to do everything we can to expedite the approval process, there can be no assurance given as to when the approval process will be 100% completed. Our application represents the first time the USDA has been asked to approve a foreign produced vaccine for companion animals for use in the United States. The USDA has therefore been, among other things, extremely cautious throughout the process. Once we receive the USDA approval, we plan to enter the market promptly with Aceto branded product.

##### ***Entering the Japanese Pharmaceutical Market***

The Company, intending to further advance the globalization of its business, and recognizing the substantial Japanese pharmaceutical market estimated at \$66 billion, second largest in the world, authorized the taking of all necessary actions to establish a subsidiary,

Aceto Japan, to transact business in Japan. As of the writing of this letter, we are in the final stages of forming this company.

We are encouraged by the early interest that Japanese pharmaceutical companies have shown in our business model. To date, we have commenced development activities for a number of products for multiple customers and are working hard to further expand both the product and customer lists. A key component of our Japanese strategy is the fact that we will be employing Japanese nationals, as well as utilizing traditional Japanese business practices and culture, at Aceto Japan.

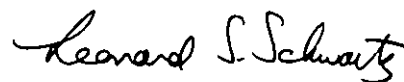
##### ***A Look Ahead***

We closed the books for fiscal 2007 in a strong financial position, with working capital of \$112.9 million, no long-term debt and shareholders' equity of \$124.8 million. We believe this level of working capital provides us with the financial strength to move our Strategic Initiatives forward.

We remain excited and optimistic about the Company's future. Our core businesses and global network of supply sources provide us with a strong foundation that will allow us to grow and we are building a Company that we believe is well positioned to sustain growth for the long term.

We would like to thank our employees, shareholders, customers and other stakeholders for supporting our past efforts and for their continued support as we move forward together, towards a promising future. We look forward to updating you on Aceto's business initiatives and results in the future.

Sincerely,



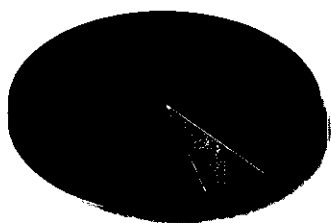
Leonard S. Schwartz  
Chairman, Chief Executive Officer and  
President

# The Business of Aceto

## Our Strengths

- Unparalleled global sourcing and regulatory capabilities to meet all chemically derived pharmaceuticals, biopharmaceuticals, specialty chemicals and agrochemicals requirements
- Strategically located warehousing and distribution facilities to assure that customers receive the chemicals they need, when they need them
- Talented, experienced people that know the markets we serve inside and out

2007 Sales by Segment



- Health Sciences 55%
- Chemicals & Colorants 39%
- Crop Protection 6%

Many of the world's leading companies rely on Aceto to supply the chemicals they use as raw materials and active ingredients in their products. Celebrating our 60<sup>th</sup> anniversary, our experience is unmatched. In recent years, acquisitions have made Aceto a truly global company and one of the largest independent distributors of chemicals for the pharmaceutical, biopharmaceutical, specialty chemicals and agrochemical industries.

Aceto's unparalleled global resources include strategic relationships with hundreds of manufacturers of specialty, pharmaceutical and agricultural chemicals, both domestic and international. As a result, customers in a wide range of industries rely on Aceto to bring the world closer to them, providing the vital chemicals necessary for diverse and complex product applications. In addition to our comprehensive global network of sources, Aceto also has superior distribution facilities located strategically throughout North America, Europe, Asia and South America, enabling us to respond quickly to customer needs.

Among Aceto's greatest strengths are our experienced worldwide staff and their ability to meet individual customer needs. Our marketing, sales and technical professionals are experts in the industries they serve, and have an intimate knowledge of worldwide sources of supply, product applications and technical requirements. Many Aceto professionals are respected leaders in our industry, bringing 25 or more years of experience at Aceto to customer applications. It's this longevity with our Company that has fostered loyalty among our customers.

Aceto personnel work as partners with customers during the product development process, creating new applications for existing products as well as entirely new product lines. We also offer solutions to production challenges, generate marketing programs and assist with government approvals and compliance. All of these value-added services allow Aceto's customers to be more responsive to their customers, and ultimately, more competitive in the global marketplace.



### Active Pharmaceutical Ingredients (APIs)

In recent years, the use of generic drugs has expanded tremendously. Aceto's presence in this area has likewise grown dramatically, both domestically and internationally. We supply APIs to all the major generic drug companies, who view Aceto as a crucial partner in their mission to market generic drugs once patents have expired. We supply APIs used to treat high cholesterol, diabetes, depression, glaucoma, asthma and many other conditions.

The introduction of new APIs from our pipeline to market is a process that spans a number of years and begins by partnering with a generic pharmaceutical company and selecting the API. Next, we identify the appropriate supplier and ensure they meet the highest standards of quality to comply with both U.S. and European regulations. The generic pharmaceutical company will submit the ANDA (Abbreviated New Drug Application) for FDA or European equivalent approval while we control test-manufacturing of the API. The introduction of the API to market occurs once the ANDA or European equivalent is granted and the API patent expires. As a result, our revenues in the short

## Health Sciences

term can be volatile due to customer delays, project cancellations or delays in receiving regulatory approval. Additionally, during the typical life cycle of an API, we benefit from higher gross margins earned when the API first enters the market. As more competitors enter the market these margins generally decline, therefore it is important to have a sufficient pipeline of new APIs to achieve sustainable long-term growth.

Over the coming years as patents expire on branded drugs, we have a pipeline of APIs poised to reach commercial levels, both in the United States and Europe. Additionally, with our office in Poland that we opened in 2004, we are well-positioned to take advantage of opportunities that develop as Eastern European countries join the European Union, and thus become subject to the same regulatory standards as their Western European counterparts.

We continue to develop new opportunities to provide a second-source option for existing generic drugs. By leveraging our worldwide sourcing and regulatory capabilities, we believe we can be an alternative low-cost provider of existing APIs to generic drug companies.

A focus for Aceto as we entered fiscal 2007 was our initiative to sell generic drugs in finished dosage forms under the Aceto brand. In February 2007, we announced that this strategic initiative had become a reality.

Aceto Pharma Corp., a wholly owned subsidiary of Aceto Corporation, established for the express purpose of distributing Aceto branded human and veterinary generic pharmaceuticals in the United States, had made a successful entrance into the market by launching and taking orders for its first product, isoflurane, an inhalable anesthetic for human and veterinary use with a current U.S. market of more than \$75 million.

During the year, we have enhanced our internal capabilities and are focusing our efforts on establishing relationships with other suppliers of ANDA approved products to distribute under the Aceto brand in the United States. We believe there are no other distribution companies attempting to do what we are doing, attesting to Aceto's biggest competitive strength, the unique marriage of our global sourcing and regulatory capabilities. Our business model provides access to the U.S. generic pharmaceutical market for mid-size foreign companies. With respect to regulatory compliance, we are confident that we have achieved the capability to satisfy all of our regulatory requirements while maintaining our status as a distributor.

### Pharmaceutical Intermediates

Aceto is a key supplier of complex chemical building blocks used as pharmaceutical intermediates. These are critical components of all drugs whether they are already on the market or currently undergoing clinical trials. Faced with significant economic pressures as well as ever-increasing regulatory barriers, the innovative drug companies count on Aceto to supply these intermediates economically while maintaining the highest levels of quality.

Aceto added a new business model for our pharmaceutical intermediates in late 2002. In addition to the traditional way of working

## Growth Drivers

- Drug patent expirations
- Introduce new APIs from pipeline
- Introduce Aceto branded finished dosage form generic drugs directly into distribution channels
- Expansion of second source API business
- Expansion of pharma intermediate business
- Introduce vaccines for companion animals to the U.S. market (subject to regulatory approvals)
- Enter the Japanese pharmaceutical market
- Explore strategic acquisitions





## Health Sciences (continued)

as western pharmaceutical markets and we believe our business model is well suited to be successful there.

We are currently in the final stages of forming Aceto Japan, Inc. which will serve as our operating company in Japan. A key component of our Japanese strategy is the fact that we will be employing Japanese nationals as well as utilizing traditional Japanese business practices and culture at Aceto Japan. We are encouraged by the early interest that Japanese pharmaceutical companies have shown in our business model. To date, we have commenced development activities for a number of products for multiple customers and are working hard to further expand the product and customer list. While we initially are looking to enter this market with our pharmaceutical intermediates business, we expect that at some point in the future we will introduce both our API business as well as our finished dosage form business as well.

### **Biopharmaceuticals**

Aceto entered into the biopharmaceutical market in December 2003 with its acquisition of Pharma Waldhof. We plan to leverage the acquisition by supplying biopharma APIs to the generic, innovator, animal health and discovery industries in regulated markets (U.S./EU).

We are particularly focused on the biopharmaceuticals used in the veterinary business for companion animals, such as vaccines and other therapies, where regulatory pathways currently exist.

In fiscal 2007, we suffered a setback in our efforts to have a 4-way vaccine for use in the canine market approved by the USDA. As a result of a misunderstanding with the USDA regarding the testing protocol they had previously approved as the basis for our vaccines label claims, it will be necessary for the animal

testing to be redone under a revised testing protocol. There will also be a requisite field safety test that needs to be completed.

On a much more positive note, the USDA did acknowledge that notwithstanding the protocol approval error, the animal testing results which had already been completed under the original testing protocol indicated that the vaccine was, as we expected it would be, "efficacious." While we continue to do everything we can to expedite the approval process, there can be no assurance given as to when the approval process will be 100% completed. Our application represents the first time the USDA has been asked to approve a foreign produced vaccine for companion animals for use in the United States. The USDA has therefore been, among other things, extremely cautious throughout the process. Once we receive the USDA approval, we plan to enter the market promptly with Aceto branded product.

Aceto has been active in the area of generic human biopharmaceuticals for the past several years and we have a partnership with Three Rivers Pharmaceuticals to bring three products to market if and when regulatory pathways are approved. The commercialization of human generic biopharmaceuticals is subject to the FDA providing guidance, and putting into place regulatory pathways for these products to come to market in the United States.

### **Nutraceuticals**

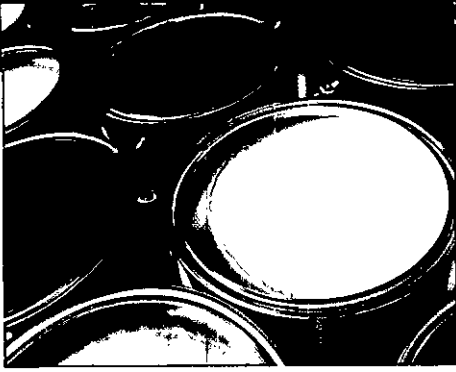
We also supply raw materials used in the production of nutritional supplements, including: vitamins, amino acids, iron compounds, and biochemicals used in pharmaceutical and nutritional preparations. This is a business that has shown nice growth in the past several years and one that we believe has the potential for more growth, particularly globally, over the next several years.

with drug discovery companies, helping them develop and source new chemical entities that they will use to make the drugs of tomorrow, we are working with the same companies to assist them in bringing down the costs of their mature pharmaceuticals by sourcing many of their existing raw materials from parts of the world where the economics are more attractive. This business model has started to gain acceptance from some of the large, global pharmaceutical companies and Aceto is currently working with several of these companies supplying raw materials for them. This dual approach gives our pharmaceutical customers an additional reason to work with Aceto, covering both their existing and developmental drugs.

Another business where Aceto has seen nice growth is in providing chemicals for the diagnostic kits used by health care providers. In fiscal 2007, this business almost doubled in size and we see this as a business with more growth potential in the future as we bring to light the advantages of sourcing raw materials from other parts of the world to the diagnostic companies. This, in many ways, parallels what we are doing with pharmaceutical intermediates.

In fiscal 2007, as we continued to look at opportunities for Aceto to grow globally, we made a decision to explore entering the Japanese pharmaceutical market, the second largest pharmaceutical market in the world. Although the barriers to entry are quite high, this market is not as competitive





# Chemicals & Colorants

Aceto is a major supplier to the many different industries that require outstanding performance from chemical raw materials and additives. We provide chemicals used to make plastics, surface coatings, textiles, fuels and lubricants. These products include antioxidants, photoinitiators, catalysts, cross linkers (curatives), brighteners and adhesion promoters.

Aceto is at the forefront as a supplier of chemicals to ecofriendly technologies. For example, we supply UV photoinitiators that allow inks and coatings to be cured by ultraviolet light instead of solvents. We also supply curing agents and optical brighteners for powder (non solvent) coatings. These growing technologies are critical in protecting the world's ecology.

We also provide specialty chemicals for the food, beverage and flavor and fragrance industries. 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. In addition, we introduced a new additive for wines, distilled spirits and sauces that adds an "oak" aging flavor.

## Organic Intermediates and Colorants

The color producing industry manufactures a wide assortment of products and Aceto is, and has been, the supplier of choice to these producers of "color." From textiles and plastics to inks and paints, our specialty colorant intermediates allow manufacturers to develop an endless rainbow of colorful possibilities for fabrics, decorative effects, automobiles, and countless other objects the world uses every day.

Applications for Aceto's organic intermediates include:

- Color pigments for vibrant printing inks used in color newspapers
- Inks for computer ink jet printing
- Automotive, industrial and residential coatings
- Dyes for colorful textiles for both natural and synthetic fibers
- Color photography and papers
- Colors for fuels like gasoline
- FDA-approved colorants for foods and pharmaceuticals.

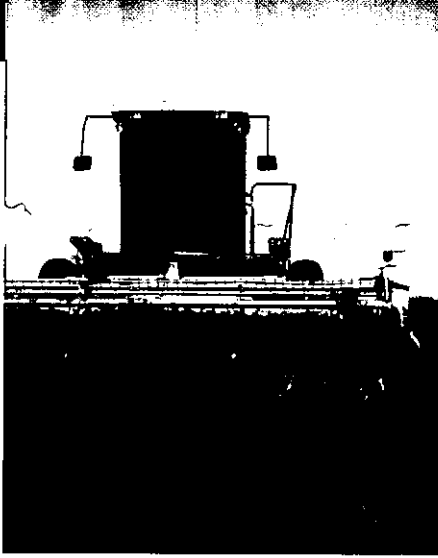
Aceto is currently responding to the changing needs of our customers in the color producing industry by taking our resources and knowledge of color intermediates downstream as a supplier of select organic pigments.

Aceto's organic intermediates are also crucial building blocks in the production of many high quality agrochemicals utilized by farmers throughout the world. Agricultural applications for our organic intermediates include herbicides, insecticides, fungicides and other functional pesticides.



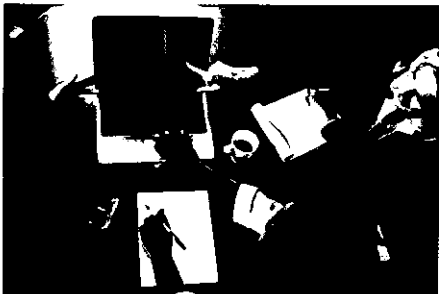
## Growth Drivers

- Globalizing our Chemicals and Colorants Business
- Rapid pace of new product development
- Leveraging our position in chemical consuming industries by broadening our product line
- Expanding organic (color) pigments business



The world is dependent on agriculture for all kinds of products—and Aceto has become a valued partner to the global agricultural industry by providing superior quality chemicals. Aceto's most widely used crop protection product is a sprout inhibitor that extends the storage life of potatoes. Farmers also rely on Aceto agrochemicals to protect crops that become many other types of food, as well as clothing and shelter for consumers throughout the world. The chemicals we supply include herbicides, fungicides, and insecticides that control weed growth and the spread of insects and microorganisms that can severely damage plant growth.

Aceto continues to expand its distribution of products into new markets. During 2004, we



## Crop Protection

received approval to sell our sprout inhibitor in Europe and in 2005, we expanded sales of this product into Russia.

In fiscal 2007, we very successfully launched generic Asulam, a herbicide used on sugar cane. Under a multi-year contract with a major agricultural chemical distributor, we began supplying the product in the United States. This approval marked an important first in our history, as it was the first generic registration that Aceto has received. We continue to develop a pipeline of additional products for the coming years.

As a result of our successful launch of this product, we are attempting to increase our market development activities in this business segment. In this regard, we have expanded our in-house resources and created a new position in our Crop Protection business of Regulatory Manager. In addition, we are enhancing our crop protection sourcing and regulatory capabilities in China. We believe that the combination of

our global sourcing and regulatory capabilities makes Aceto an attractive partner and has provided us with several new opportunities which we are currently working on.

## Growth Drivers

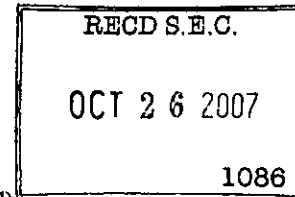
- Successful launch of generic Asulam
- Partner with distribution companies to secure entry into the marketplace
- Enhancing our Crop Protection business by acquiring additional new products for distribution by the acquisition or development of intellectual property leading to an EPA label (official license to sell)
- Geographic expansion of existing products

## Regulatory Affairs

Aceto is proud of its industry-leading commitment to regulatory concerns. Proof of our dedication to this vital area is our extensive corporate department that handles health, safety, environmental and many other varied regulatory affairs. More than just reactive in our commitment, Aceto is proactive in assuring that all the products

we supply conform to all applicable current, and anticipated future, regulations. To further assure compliance, we also assist our suppliers and customers enabling them to meet stringent regulatory guidelines that govern the chemically derived pharmaceutical, biopharmaceuticals, specialty chemical and agrochemicals industry.

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



**FORM 10-K**

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

**For the fiscal year ended June 30, 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)

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

Common Stock, par value \$.01 per share  
(Title of Class)

The NASDAQ Global Select Market  
(Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.  
Yes [ ] No [X]

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 [ ]

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

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 X 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 [X]

The aggregate market value of the voting stock of the Company held by non-affiliates of the Company as of December 31, 2006 was approximately \$207,307,261.

The Registrant has 24,333,503 shares of common stock outstanding as of September 4, 2007.

---

---

Documents incorporated by reference: The information required in response to Part III of this Annual Report on Form 10-K is hereby incorporated by reference to the specified portions of the Registrant's definitive proxy statement for the annual meeting of shareholders to be held on December 6, 2007.

ACETO CORPORATION AND SUBSIDIARIES  
FORM 10-K  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

PART I.

- Item 1. Business
- Item 1A. Risk Factors
- Item 1B. Unresolved Staff Comments
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

PART II.

- Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure
- Item 9A. Controls and Procedures
- Item 9B. Other Information

PART III.

- Item 10. Directors, Executive Officers and Corporate Governance
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13. Certain Relationships and Related Transactions and Director Independence
- Item 14. Principal Accountant Fees and Services

PART IV.

- Item 15. Exhibits and Financial Statement Schedules
- Signatures

## PART I

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

This Annual Report on Form 10-K 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 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 stated in or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, unforeseen environmental liabilities, international military conflicts, the mix of products sold and their profit margins, order cancellation or a reduction in orders from customers, competitive product offerings and pricing actions, 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, and economic and political conditions in the United States and abroad.

#### NOTE REGARDING DOLLAR AMOUNTS

In this Annual Report, all dollar amounts are expressed in thousands, except share prices and per-share amounts.

#### Item 1. Business

##### General

Aceto Corporation, together with its consolidated subsidiaries, are referred to herein collectively as “Aceto”, “Company”, “we”, “us”, and “our” unless the content indicates otherwise. Aceto was incorporated in 1947 in the State of New York. We are a global leader in the sourcing, regulatory support, marketing and distribution of chemically derived pharmaceuticals, biopharmaceuticals, specialty chemicals and crop protection products. 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 received orders for 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 believe 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 opportunities to provide a second-source option for existing generic drugs with approved abbreviated new drug applications (ANDA's). The opportunities that we are looking for are to supply the API's 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 API's to generic drug companies.

Looking at worldwide pharmaceutical sales, and using that as a proxy for our Health Sciences business segment, in calendar 2006, the industry experienced total market growth of \$42 billion, or a 7% increase. About one half of this growth originated from the US market where the growth rate of 8.3% reflected the impact of the first year of the Medicare Part D benefit.

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 are also used in 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. 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.

According to the American Chemistry Council, the global chemical industry still appears to be in an expansionary mode although leading indicators of global industrial production suggest that the current growth cycle may have peaked. Overall, on a year-over-year basis, global chemical industry production increased by 4.4%.

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), increased 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.

According to the US Department of Agriculture, total acreage planted in 2007 increased by 1.3% to slightly more than 320 million acres. The number of peanut acres planted in 2007 was down 4.5% from 2006 levels, sugarcane acreage was down 0.7% from 2006 and potato acres planted in 2007 were down 3.6% from 2006 levels.

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.

Our presence in China, Germany, France, the Netherlands, Singapore, India, Poland, Hong Kong, the United Kingdom and the United States, along with strategically located warehouses worldwide, enable us to respond quickly to demands from customers worldwide, assuring that a consistent, high-quality supply of pharmaceutical, biopharmaceutical, specialty chemicals and crop protection products are readily accessible. We are able to offer our customers competitive pricing, continuity of supply, and quality control. We believe our 60 years of experience, our reputation for reliability and stability, and our long-term relationships with suppliers have fostered loyalty among our customers.

We remain confident about our business prospects. We anticipate continued organic growth which will be enhanced through our plans to enter the market for companion animal vaccines, the market for finished dosage form generic drugs, the Japanese pharmaceutical market, the continued globalization of our Chemicals & Colorants business, the further expansion of our crop protection segment by acquisition of product lines and intellectual property, the continued enhancement of our sourcing operations in China and India, and the steady improvement of our regulatory capabilities.

We believe our track record of continuous product introductions demonstrates that Aceto has come to be recognized by the worldwide generic pharmaceutical industry as an important, reliable supplier. Our plans involve seeking strategic acquisitions that enhance our earnings and forming alliances with partners that add to our capabilities, when possible.

Information concerning revenue and gross profit attributable to each of our reportable segments is found in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in Note 19 to the Consolidated Financial Statements, Part II, Item 8, "Financial Statements and Supplementary Data."

### **Products and Customers**

During the fiscal years ended June 30, 2007 and 2006, approximately 65% and 67%, respectively, of our purchases were from Asia and approximately 21% were from Europe.

Our customers are primarily located throughout the United States, Europe and Asia. They include a wide range of companies in the industrial chemical, agricultural, and health science industries, and range from small trading companies to Fortune 500 companies. During fiscal years 2007 and 2006, sales made to customers in the United States totaled \$153,147 and \$157,527,

respectively. Sales made to customers outside the United States during fiscal years 2007 and 2006 totaled \$160,326 and \$139,801, respectively, of which, approximately 58% and 53%, respectively, were to customers located in Europe.

The chemical industry is highly competitive. We compete by offering high-quality products produced around the world by both large and small manufacturers at attractive prices. Because of our long standing relationships with many suppliers as well as our sourcing operations in both China and India, we are able to ensure that any given product is manufactured at a facility that is appropriate for that product. For the most part, we store our inventory of chemicals in public warehouses strategically located throughout the United States, Europe, and Asia, and we can therefore fill orders rapidly from inventory. We have developed ready access to key purchasing, research, and technical executives of our customers and suppliers. This allows us to ensure that when necessary, sourcing decisions can be made quickly.

No single product or customer accounted for as much as 10% of net sales in fiscal years 2007, 2006 or 2005. No single supplier accounted for as much as 10% of purchases in fiscal 2007 and 2006. Two suppliers accounted for approximately 13% and 12% of purchases in fiscal year 2005.

We hold no patents, licenses, franchises or concessions that we consider material to our operations.

Our subsidiary Aceto Agricultural Chemicals Corp. ("Aceto Agricultural") markets, and contracts for the manufacture of, certain crop protection products that are subject to the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"). Under FIFRA, companies that wish to market pesticides must provide test data to the Environmental Protection Agency ("EPA") to register, obtain and maintain approved labels for those pesticides. The EPA requires that follow-on registrants of these products, on a basis prescribed in the FIFRA regulations, compensate the initial registrant for the cost of producing the necessary test data. 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, and pay for, the testing effort. We are currently 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 such additional payments in the future.

## **Employees**

At June 30, 2007, we had 224 employees, none of whom were covered by a collective bargaining agreement.

## **Item 1A. Risk factors**

You should carefully consider the following risk factors and other information included in this Annual 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.

*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.

In May 2007, 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 \$2,100 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 the evidence does not show that the hazardous materials sent by Aceto's subsidiary 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's subsidiary 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's subsidiary sent to the site, most of which were non-hazardous substances and as such, believes that its subsidiary is a very minor 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.

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 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.

*The distribution and sale of our products are subject to prior governmental approvals and thereafter ongoing governmental regulation.*

Our products are subject to laws administered by federal, state and foreign governments, including regulations requiring registration and approval of many of our products. More stringent restrictions could make our products less desirable, which would adversely affect our revenues and profitability. Some of our products are subject to the EPA registration and re-registration requirements, and are registered in accordance with FIFRA. Such registration requirements are based, among other things, on data demonstrating that the product will not cause unreasonable adverse effects on human health or the environment when used according to approved label directions. Governmental regulatory authorities have required, and may require in the future, that certain scientific data requirements be performed on our products and this may require us on our behalf or in joint efforts with other registrants to perform additional testing. Responding to such requirements may cause delays in or the cessation of the sales of one or more of our products which would adversely affect our profitability. We can provide no assurance that any testing approvals or registrations will be granted on a timely basis, if at all, or that our resources will be adequate to meet the costs of regulatory compliance or that the economic benefit of complying with the requirement will exceed our cost.

*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.

*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.

One of the Company's crop protection products is subject to certain licensed technology, which expired in August 2007. The Company has commenced a lawsuit against the owner of the patent license bringing claims based on antitrust and breach of contract and related claims. The Company intends to pursue these claims vigorously in order to continue to license the technology and sell the particular crop protection product.

*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 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 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 "directors and officers" insurance policies 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 give rise to product liability claims not covered by insurance or indemnity agreements.*

The marketing, distribution and use of chemical products involves substantial risk of product liability claims. A successful product liability claim that we have not insured against, that exceeds our levels of insurance or that we are not indemnified for may require us to pay a substantial amount of damages. In the event that we are forced to pay such damages, this payment may have a material adverse effect on our financial and operating results.

*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 fiscal years 2007 and 2006, approximately 53% and 47%, respectively, of our revenues were attributable to operations conducted abroad and to sales generated from the United States to foreign countries. In addition, in fiscal year 2007, approximately 65% and 21% of our purchases came from Asia and Europe, respectively. 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.

*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 suppliers' 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 suppliers' 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:

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

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 report on 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.

#### **Available information**

We file annual, quarterly, and current reports, proxy statements, and other information with the U.S. Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for information on the public reference

room. The SEC maintains a website that contains annual, quarterly, and current reports, proxy statements, and other information that issuers (including Aceto) file electronically with the SEC. The SEC's website is [www.sec.gov](http://www.sec.gov).

Our website is [www.aceto.com](http://www.aceto.com). We make available free of charge through our Internet site, via a link to the SEC's website at [www.sec.gov](http://www.sec.gov), our annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; Forms 3, 4 and 5 filed on behalf of our directors and executive officers; and any amendments to those reports and forms. We make these filings available as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information on our website is not incorporated by reference into this Annual Report.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our general headquarters and main sales office occupy approximately 26,000 gross square feet of leased space in an office building in Lake Success, New York. The lease expires in April 2011.

Arsynco's former manufacturing facility is located on a 12-acre parcel in Carlstadt, New Jersey, that it owns. This parcel contains one building with approximately 5,000 gross square feet of office space.

In November 2004, we purchased approximately 1,300 gross square meters of office space located in Shanghai, China for our sales offices and investment purposes.

We also lease office space in Hamburg, Germany; Düsseldorf, Germany; Heemskerk, the Netherlands; Paris, France; Lyon, France; Singapore; Warsaw, Poland and Mumbai, India. These offices are used for sales and administrative purposes.

We believe that our properties are generally well maintained, in good condition and adequate for our present needs.

#### **Item 3. Legal Proceedings.**

We are subject to various claims that have arisen in the normal course of business. We do not know what impact the final resolution of these matters will have on our results of operations in a particular reporting period. We believe, however, that the ultimate outcome of such matters will not have a material adverse effect on our financial condition or liquidity.

In May 2007, 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 \$2,100 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 the evidence does not show that the hazardous materials sent by Aceto's subsidiary 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's subsidiary 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's subsidiary sent to the site, most of which were non-hazardous substances and as such, believes that its subsidiary is a very minor 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.

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 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 currently believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

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

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year covered by this Annual Report.

PART II

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

Our common stock is traded on the NASDAQ Global Select Market using the symbol "ACET." The following table states the fiscal year 2007 and 2006 high and low sales prices of our common stock as reported by the NASDAQ Global Market for the periods indicated.

	HIGH	LOW
<b>FISCAL YEAR 2007</b>		
First Quarter	\$ 7.63	\$ 6.54
Second Quarter	9.25	6.82
Third Quarter	9.98	7.22
Fourth Quarter	9.48	7.60
<b>FISCAL YEAR 2006</b>		
First Quarter	\$ 8.20	\$ 5.49
Second Quarter	6.96	5.64
Third Quarter	7.70	6.44
Fourth Quarter	8.36	6.33

Cash dividends of \$0.075 per common share were paid in January 2007 and cash dividends of \$0.10 per common share were paid in June of 2007. Cash dividends of \$0.075 per common share were paid in January and June of fiscal years 2006 and 2005. Our revolving credit facility restricts the payment of cash dividends to \$4,500 per year.

As of September 4, 2007, there were 520 holders of record of our common stock.

22,172 shares of our common stock were held by the nominee of the Depository Trust Company, the country's principal central depository. For purposes of determining the number of owners of our common stock, those shares are considered to be owned by one holder. Additional individual holdings in street name result in a sizable number of beneficial owners being represented on our records as owned by various banks and stockbrokers.

The following table states certain information with respect to our equity compensation plans at June 30, 2007:

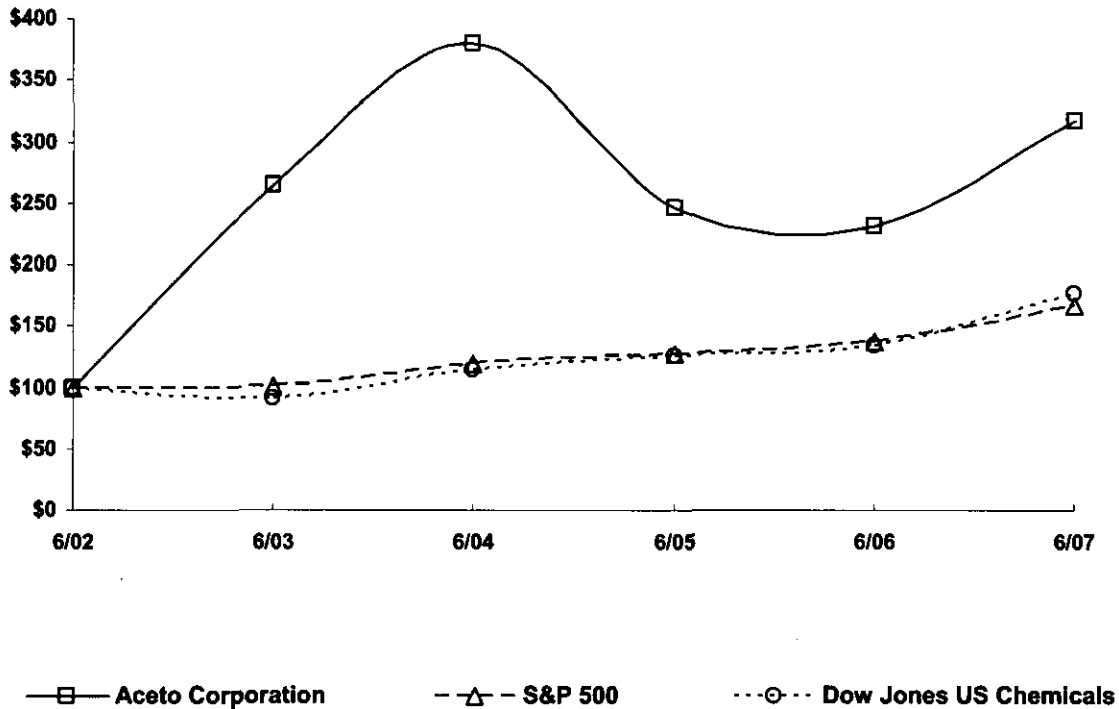
Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	2,700	\$7.58	161
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>2,700</b>	<b>\$7.58</b>	<b>161</b>

**Performance Graph**

The following graph compares on a cumulative basis the yearly percentage change, assuming dividend reinvestment, over the last five fiscal years in (a) the total shareholder return on our common stock with (b) the total return on the Standard & Poor's 500 Index and (c) the total return on a published line-of-business index – the Dow Jones U.S. Chemicals Index (the "Peer Group").

The following graph assumes that \$100 had been invested in each of the Company, the Standard & Poor's 500 Index and the Peer Group on June 30, 2002. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**  
**AMONG ACETO CORPORATION, THE S&P 500 INDEX**  
**And The Dow Jones US Chemicals Index**



**ASSUMES \$100 INVESTED ON JUNE 30, 2002**  
**ASSUMES DIVIDEND REINVESTMENT**  
**FISCAL YEAR ENDING JUNE 30, 2007**

	<u>Aceto Corporation</u>	<u>S&amp;P 500 Index</u>	<u>Dow Jones U.S. Chemicals</u>
June 30, 2002	100	100	100
June 30, 2003	264	100	91
June 30, 2004	380	119	115
June 30, 2005	246	127	126
June 30, 2006	232	138	134
June 30, 2007	317	166	177



## Item 6. Selected Financial Data

(In thousands, except per-share amounts)

<u>Fiscal years ended June 30,</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004<sup>(1)</sup></u>	<u>2003</u>
Net sales <sup>(2)</sup>	\$313,473	\$297,328	\$313,431	\$296,646	\$270,116
Operating income <sup>(2)</sup>	15,064	12,429	11,590	16,405	13,182
Income from continuing operations	10,212	9,264	10,625	13,111	9,522
Net income <sup>(3)</sup>	10,212	9,237	10,015	13,067	7,595
<u>At year end</u>					
Working capital	\$112,930	\$104,707	\$ 94,249	\$ 86,420	\$ 72,208
Total assets	188,478	166,592	149,028	149,697	123,519
Long-term liabilities	15,548	15,140	3,982	2,877	1,043
Shareholders' equity	124,827	115,053	107,655	100,266	84,569
<u>Per diluted common share<sup>(4)</sup></u>					
Income from continuing operations	\$0.41	\$0.38	\$0.43	\$0.53	\$0.40
Net income	\$0.41	\$0.38	\$0.41	\$0.53	\$0.32
Cash dividends	\$0.175	\$0.15	\$0.15	\$0.11	\$0.10

<sup>(1)</sup> Includes the acquisition of Pharma Waldhof on December 31, 2003.

<sup>(2)</sup> Certain reclassifications have been made to fiscal 2006 and prior year amounts included in the previously filed Form 10-K to conform to the current year presentation.

<sup>(3)</sup> Fiscal 2003 net income includes a \$1,873 charge (\$0.08 per diluted common share) for a cumulative effect of an accounting change resulting from an impairment of goodwill.

<sup>(4)</sup> Adjusted for stock splits, effected in the form of dividends, as appropriate.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Executive Summary

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.

We are reporting a \$2,635 increase in operating profit to \$15,064 for the year ended June 30, 2007 as compared to \$12,429 for the prior year. This increase in operating profit was achieved, despite a highly competitive environment, primarily through maintaining our profit margin and our successful management of selling, general and administrative costs. Net sales for fiscal 2007 were \$313,473, an increase of \$16,145 from fiscal 2006. This increase in net sales also impacted our gross profit, which increased \$3,535 to \$54,493 for fiscal 2007. Our net income increased to \$10,212, or \$0.41 per diluted share, an increase of \$975 or 10.6% compared to fiscal year 2006.

Our financial position as of June 30, 2007, remains strong, as we had cash and short-term investments of \$35,356, working capital of \$112,930, no long-term debt and shareholders' equity of \$124,827.

Our business is separated 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 API's, pharmaceutical intermediates, nutritionals and biopharmaceuticals. In fiscal 2007, we entered the market for finished dosage form generic drugs when we received orders for 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 believe 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 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 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 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 are also used in 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. 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, 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), increased 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.

We formerly also reported under the Institutional Sanitary Supplies segment, which included cleaning solutions, fragrances and deodorants for commercial and industrial customers. This former segment was successfully divested from our ongoing business during fiscal 2006.

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, 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, refer to the accompanying consolidated statements of income, which present the results of our operations for the three years ended June 30, 2007. We analyze and explain the differences between periods in the specific line items of the consolidated statements of income.

### **Critical Accounting Estimates and Policies**

This 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 indefinite-life 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.

We believe the following critical accounting policies affected our more significant judgments and estimates used in preparing these consolidated financial statements.

#### *Revenue Recognition*

We recognize revenue from sales of any product when it is shipped and title and risk of loss pass to the customer. We have no acceptance or other post-shipment obligations and we do not offer product warranties or services to our customers.

Sales are recorded net of returns of damaged goods from customers, which historically have been immaterial, and sales incentives offered to customers. Sales incentives consist primarily of volume incentive rebates. We record volume incentive rebates as the underlying revenue transactions that result in progress by the customer in earning the rebate are recorded, in accordance with Emerging Issues Task Force ("EITF") 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

#### *Allowance for Doubtful Accounts*

We maintain allowances for doubtful accounts relating to estimated losses resulting from customers being unable to make required payments. Allowances for doubtful accounts are based on historical experience and known factors regarding specific customers and the industries in which those customers operate. If the financial condition of our customers were to deteriorate, resulting in their ability to make payments being impaired, additional allowances would be required.

#### *Inventories*

Inventories, which consist principally of finished goods, are stated at the lower of cost (first-in first-out method) or market. We write down our inventories for estimated excess and obsolete goods by an amount equal to the difference between the carrying cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. A significant sudden increase in demand for our products could result in a short-term increase in the cost of inventory purchases, while a significant decrease in demand could result in an increase in the excess inventory quantities on-hand. Additionally, we may overestimate or underestimate the demand for our products which would result in our understating or overstating, respectively, the write-down required for excess and obsolete inventory. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and reported operating results.

#### *Goodwill and Other Indefinite-Lived Intangible Assets*

Goodwill is calculated as the excess of the cost of purchased businesses over the value of their underlying net assets. Other indefinite-lived intangible assets principally consist of trademarks. Goodwill and other indefinite-lived intangible assets are not amortized.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," we test goodwill and other indefinite-lived intangible assets for impairment on at least an annual basis. To determine the fair value of these intangible assets, we use many assumptions and estimates that directly impact the results of the testing. In making these assumptions and estimates, we use industry-accepted valuation models and set criteria that are reviewed and approved by various levels of management. If our estimates or our related assumptions change in the future, we may be required to record impairment charges for these assets.

#### *Long-Lived Assets*

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Identifiable intangible assets principally consist of customer relationships, customer lists, EPA registrations and related data, patent license and covenants not to compete. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair value. If such assets are considered to be impaired, the impairment to be

recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

#### *Environmental and Other Contingencies*

We establish accrued liabilities for environmental matters and other contingencies when it is probable that a liability has been incurred and the amount of the liability can reasonably be estimated. If the contingency is resolved for an amount greater or less than the accrual, or our share of the contingency increases or decreases, or other assumptions relevant to the development of the estimate were to change, we would recognize an additional expense or benefit in income in the period that the determination was made.

#### *Taxes*

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset-and-liability approach to financial accounting and reporting of income taxes.

As of June 30, 2007, we had current net deferred tax assets of \$1,656 and non-current net deferred tax assets of \$3,212. These net deferred tax assets have been recorded based on our projecting that we will have sufficient future earnings to realize these assets, and the net deferred tax assets have been provided for at currently enacted income tax rates. If we determine that we will not be able to realize a deferred tax asset, an adjustment to the deferred tax asset will result in a reduction of net income at that time.

Deferred taxes have not been provided on undistributed earnings of foreign subsidiaries since substantially all of these earnings are expected to be permanently reinvested in our foreign operations. A deferred tax liability will be recognized when we expect that we will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. Determination of the amount of the unrecognized U.S. income tax liability is not practical because of the complexities of the hypothetical calculation. In addition, unrecognized foreign tax credit carryforwards would be available to reduce a portion of such U.S. tax liability.

Tax reform has taken place in Germany whereby an income tax law was passed in July 2007, awaiting approval into the Federal Gazette. The enacted tax rate in Germany will potentially change from 40% to 30%. As a result, the deferred tax balance could decrease by \$1,600 in 2008.

#### *Stock-based Compensation*

With the adoption of SFAS No. 123(R) on July 1, 2005, we are required to record the fair value of stock-based compensation awards as an expense. In order to determine the fair value of stock options on the date of grant, we apply the Black-Scholes option-pricing model, including an estimate of forfeitures. Inherent in this model are assumptions related to expected stock-price volatility, option term, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions that are based on factual data derived from public sources, the expected stock-price volatility and option term assumptions require a greater level of judgment which makes them critical accounting estimates.

We use an expected stock-price volatility assumption that is based on the historical daily price changes of the underlying stock which are obtained from public data sources. For stock option grants issued during fiscal 2007, we used an expected stock-price volatility of 57% based upon the historical volatility at the time of issuance. With regard to the weighted-average option term assumption, for stock option grants issued during fiscal 2007, we used an expected option term assumption of 5.5 years as determined under the "simplified" method prescribed in SEC Staff Accounting Bulletin ("SAB") No. 107.

## Results of Operations

### Fiscal Year Ended June 30, 2007 Compared to Fiscal Year Ended June 30, 2006

#### Net Sales by Segment Year ended June 30,

<u>Segment</u>	<u>2007</u>		<u>2006</u>		<u>Comparison 2007 Over/(Under) 2006</u>	
	<u>Net sales</u>	<u>% of total</u>	<u>Net sales</u>	<u>% of total</u>	<u>\$ change</u>	<u>% change</u>
Health Sciences	\$170,691	54.5%	\$166,725	56.1%	\$ 3,966	2.4 %
Chemicals & Colorants	123,299	39.3	110,869	37.3	12,430	11.2
Crop Protection	<u>19,483</u>	<u>6.2</u>	<u>19,734</u>	<u>6.6</u>	<u>(251)</u>	<u>(1.3)</u>
Net sales	<u>\$313,473</u>	<u>100.0%</u>	<u>\$297,328</u>	<u>100.0%</u>	<u>\$16,145</u>	<u>5.4%</u>

#### Gross Profit by Segment Year ended June 30,

<u>Segment</u>	<u>2007</u>		<u>2006</u>		<u>Comparison 2007 Over/(Under) 2006</u>	
	<u>Gross profit</u>	<u>% of sales</u>	<u>Gross Profit</u>	<u>% of sales</u>	<u>\$ change</u>	<u>% change</u>
Health Sciences	\$33,007	19.3%	\$32,313	19.4%	\$ 694	2.1%
Chemicals & Colorants	16,556	13.4	17,144	15.5	(588)	(3.4)
Crop Protection	<u>4,930</u>	<u>25.3</u>	<u>4,760</u>	<u>24.1</u>	<u>170</u>	<u>3.6</u>
Segment gross profit	54,493	17.4	54,217	18.2	276	0.5
Freight and storage costs (1)	<u>-</u>	<u>-</u>	<u>(3,259)</u>	<u>(1.1)</u>	<u>3,259</u>	<u>100.0</u>
Gross profit	<u>\$54,493</u>	<u>17.4%</u>	<u>\$50,958</u>	<u>17.1%</u>	<u>\$ 3,535</u>	<u>6.9%</u>

(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 year ended June 30, 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**

Net sales increased \$16,145, or 5.4%, to \$313,473 for the year ended June 30, 2007, compared with \$297,328 for the prior year. We reported sales increases in our Health Sciences and Chemicals & Colorants segments, which were partially offset by a slight sales decrease in our Crop Protection segment.

### *Health Sciences*

Net sales for the Health Sciences segment increased by \$3,966 for the year ended June 30, 2007, to \$170,691, which represents a 2.4% increase over net sales of \$166,725 for the prior year. The sales increase from the prior period is primarily related to increased sales from our foreign operations of \$9,229, specifically our Germany and Singapore operations, and increased sales from the pharmaceutical intermediates and diagnostics products of \$4,365. These increases were partially offset by a decrease from one specific generic product of \$9,906 due to its normal selling pattern.

### *Chemicals & Colorants*

Net sales for the Chemicals & Colorants segment were \$123,299 for the year ended June 30, 2007, compared to \$110,869 for the prior year. This increase of \$12,430 or 11.2%, over the prior period is 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 year ended June 30, 2007 increased by \$6,920 over the comparable prior year period. The increase in sales for this segment also resulted from the increase in sales in the coatings product group of \$7,350. The increase in Chemicals and Colorant sales is partially offset by one customer within our color-pigment and pigment-intermediate business, whose contract expired in fiscal 2006 and purchased \$3,118 during 2006 as compared to zero in 2007. Our chemical business is diverse in terms of products, customers and consuming markets.

### *Crop Protection*

Net sales for the Crop Protection segment decreased to \$19,483 for the year ended June 30, 2007, a decrease of \$251, or 1.3%, over net sales of \$19,734 for the prior year. The overall decrease in net sales was mainly attributable to decreases in three products of \$2,955 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 by segment increased \$3,535 to \$54,493 (17.4% of net sales) for the year ended June 30, 2007, as compared to \$50,958 (17.1% of net sales) for the prior year. The gross profit of each segment was negatively affected by the direct allocation of certain freight and storage costs in 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 \$33,007 for the year ended June 30, 2007, was \$694 or 2.1% higher than the prior year. This increase in gross profit was directly attributable to the increase in the sales volume. The gross margin declined to 19.3% in fiscal 2007 compared to a gross margin of 19.4% for the prior fiscal year which is directly attributed to the direct allocation of certain freight and storage charges that are not included in last year's comparable period.

### *Chemicals & Colorants*

Gross profit for the year ended June 30, 2007, decreased by \$588, or 3.4%, over the prior year due to the direct allocation of certain freight and storage charges not included in last year's comparable period as well as settlement of an anti-dumping claim of \$330. Gross margin decreased from 15.5% in fiscal 2006 to 13.7% in fiscal 2007. The foreign subsidiaries, primarily Germany and Singapore, contributed \$625 or 19% more gross profit in 2007 as compared to 2006. Additionally, the coatings product group reported an increase of \$723 due to the sales increase previously mentioned above over the prior year.

### *Crop Protection*

Gross profit for the Crop Protection segment increased to \$4,930 for the year ended June 30, 2007, versus \$4,760 for the prior year, an increase of \$170 or 3.6%. The primary reason for the increase in gross profit was due to the launch of the Asulam product. The gross profit was negatively affected by \$1,028 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 \$338.

### *Unallocated freight and storage costs*

Unallocated cost of sales was \$0 for fiscal 2007 compared to \$3,259 in 2006. 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 year. 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") increased \$900, or 2.3%, to \$39,429 for the year ended June 30, 2007 compared to \$38,529 for the prior year. As a percentage of sales, SG&A decreased to 12.6% for fiscal 2007 versus 13.0% for fiscal 2006. The increase in SG&A is primarily attributable to the increase of \$1,244 in personnel costs including increased bonus expenses and additional employees, \$415 increase in sales and marketing expenses, and \$259 increased legal costs, partially offset by lower operating expenses of \$952 resulting from the sale of one of our subsidiaries in August 2005 and a \$537 charge for settlement of legal claims against one of our subsidiaries in 2006.

### **Operating Income**

Fiscal 2007 operating income was \$15,064 compared to \$12,429 in the prior year, an increase of \$2,635 or 21.2%. This increase was due to the \$3,535 increase in gross profit, which was partially offset by the overall increase in SG&A expenses of \$900.

### **Interest and Other Income, Net**

Interest and other income was \$532 for fiscal 2007, which represents a 44.4% decrease from \$956 in fiscal 2006. The decrease is primarily attributable to a decrease of \$409 in a government subsidy paid annually for doing business in a free trade zone in Shanghai, China and net loss on foreign currency of \$770, partially offset by an increase in interest income of \$455 due to increased investments during the year and increased interest rates.

### **Provision for Income Taxes**

The effective tax rate for fiscal 2007 increased to 33.8% from 30.1% for fiscal 2006. The increase in the effective tax rate relates primarily to increased earnings in foreign tax jurisdictions with higher tax rates, primarily Germany.

## Results of Operations

### Fiscal Year Ended June 30, 2006 Compared to Fiscal Year Ended June 30, 2005

#### Net Sales by Segment Year ended June 30,

Segment	2006		2005		Comparison 2006 Over/(Under) 2005	
	Net sales	% of total	Net sales	% of total	\$ change	% change
Health Sciences	\$166,725	56.1%	\$184,577	58.9%	\$(17,852)	(9.7)
Chemicals & Colorants	110,869	37.3	104,777	33.4	6,092	5.8
Crop Protection	19,734	6.6	20,031	6.4	(297)	(1.5)
Institutional Sanitary Supplies	—	—	4,046	1.3	(4,046)	(100.0)
Net sales	<u>\$297,328</u>	<u>100.0%</u>	<u>\$313,431</u>	<u>100.0%</u>	<u>\$(16,103)</u>	<u>(5.1%)</u>

#### Gross Profit by Segment Year ended June 30,

Segment	2006		2005		Comparison 2006 Over/(Under) 2005	
	Gross Profit	% of sales	Gross Profit	% of sales	\$ change	% change
Health Sciences	\$32,313	19.4%	\$32,886	17.8%	\$ (573)	(1.7)%
Chemicals & Colorants	17,144	15.5	17,257	16.5	(113)	(0.6)
Crop Protection	4,760	24.1	6,719	33.5	(1,959)	(29.2)
Institutional Sanitary Supplies	—	—	696	17.2	(696)	(100.0)
Segment gross profit	54,217	18.2	57,558	18.4	(3,341)	(5.8)
Freight and storage costs (1)	<u>(3,259)</u>	<u>(1.1)</u>	<u>(4,407)</u>	<u>(1.4)</u>	<u>1,148</u>	<u>26.0</u>
Gross profit	<u>\$50,958</u>	<u>17.1%</u>	<u>\$53,151</u>	<u>17.0%</u>	<u>\$(2,193)</u>	<u>(4.1)%</u>

(1) Represents certain freight and storage costs that are not allocated to a segment.



## **Net Sales**

Net sales decreased \$16,103, or 5.1%, to \$297,328 for the year ended June 30, 2006, compared with \$313,431 for the prior year. We reported sales decreases in our Health Sciences and Crop Protection segments, which were partially offset by a sales increase in our Chemicals & Colorants segment.

### *Health Sciences*

Net sales for the Health Sciences segment decreased by \$17,852 for the year ended June 30, 2006, to \$166,725, which represents a 9.7% decrease over net sales of \$184,577 for the prior year. The sales decrease from the prior period is directly attributable to the loss of foreign business of \$16,716 from two previously launched APIs due to increased competition. The fiscal 2006 results, net of the two lost APIs, include a sales reduction of \$2,243 from our foreign operations which was partially offset by a sales increase of \$1,162 from our domestic operations over the prior fiscal year.

### *Chemicals & Colorants*

Net sales for the Chemicals & Colorants segment were \$110,869 for the year ended June 30, 2006, compared to \$104,777 for the prior year. This increase of \$6,092, or 5.8%, over the prior period is primarily attributable to an increase in the agricultural intermediate, food, beverage and cosmetics and coatings product groups of \$7,650 as compared to fiscal 2005. Our chemical business is diverse in terms of products, customers and consuming markets. One customer within our color-pigment and pigment-intermediate business purchased \$3,515 less product during fiscal 2006 as their contract had expired. This reduction was more than offset by an increase over the prior period in domestic sales of our diverse chemical and colorants offerings. In addition, net sales include a \$1,783 increase relating to our former CDC business, primarily from sales of the Anti-Clog product we retained.

### *Crop Protection*

Net sales for the Crop Protection segment decreased to \$19,734 for the year ended June 30, 2006, a decrease of \$297, or 1.5%, over net sales of \$20,031 for the prior year. This decline over the prior year was primarily due to dry weather conditions shortening the agricultural selling season, for our second largest product.

## **Gross Profit**

Gross profit by segment before unallocated cost of sales (primarily storage and certain freight costs) decreased \$3,341 to \$54,217 (18.2% of net sales) for the year ended June 30, 2006, as compared to \$57,558 (18.4% of net sales) for the prior year.

### *Health Sciences*

Health Sciences' gross profit of \$32,313 for the year ended June 30, 2006, was \$573 or 1.7% lower than the prior year. This decrease in gross profit was directly attributable to the loss of business on two larger previously-launched APIs in Asia of \$2,373 due to significant competitive pressures as well as a decrease in our foreign business, net of the two APIs, of \$499. This lost gross profit was partially offset by an increase in gross profit from sales increases from our domestic business of \$1,087 over the prior fiscal year. The gross margin increased to 19.4% in fiscal 2006 compared to a gross margin of 17.8% for the prior fiscal year due primarily to a shift in the product mix of net sales to higher margin products during the 2006 fiscal year.

### *Chemicals & Colorants*

Gross profit for the year ended June 30, 2006, decreased by \$113, or 0.6%, over the prior year. Gross margin decreased from 16.5% in fiscal 2005 to 15.5% in fiscal 2006. Decreases in categories such as organic chemicals and chemical intermediates in terms of both volume and margins were the primary reasons for these decreases. In addition, the decrease in gross margin percentage was partly attributable to an increased allocation of certain freight and storage costs.

### *Crop Protection*

Gross profit for the Crop Protection segment decreased to \$4,760 for the year ended June 30, 2006, versus \$6,719 for the prior year, a decrease of \$1,959 or 29.2%. Gross margin decreased from 33.5% in fiscal 2005 to 24.1% in fiscal 2006. The

primary cause of the decrease was lower royalty payments from our foreign customers of \$652 and lower gross margins on our second highest volume product compared to the prior fiscal year of \$416. The gross profits and margins were also negatively affected by higher costs associated with maintaining our EPA registered products and increased rebate expenses of \$339.

#### *Unallocated freight and storage costs*

Unallocated cost of sales decreased \$1,148, to \$3,259 in fiscal 2006, compared to \$4,407 in the prior year, representing a 26.0% decrease. The lower costs were mainly a result of decreased sales and shipments to customers. In addition, certain system improvements allow previously unallocated costs to be identifiable and included in a particular segment.

#### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses ("SG&A") decreased \$3,032, or 7.3%, to \$38,529 for the year ended June 30, 2006 compared to \$41,561 for the prior year. As a percentage of sales, SG&A remained stable at 13.0% for fiscal 2006 versus 13.3% for fiscal 2005. The decrease in SG&A was primarily due to a \$1,405 decrease in expenses for our former CDC business, reduced legal fees of \$878, a reduction in audit and Sarbanes-Oxley compliance costs of \$428 and reduced sales and marketing related expenses of \$638. These expense reductions were partially offset by a \$537 charge for a settlement of legal claims against one of our subsidiaries.

#### **Operating Income**

Fiscal 2006 operating income was \$12,429 compared to \$11,590 in the prior year, an increase of \$839 or 7.2%. This increase was due to the \$3,032 decrease in SG&A expenses, which was partially offset by the overall decrease in gross profit of \$2,193.

#### **Interest and Other Income**

Interest and other income was \$956 for fiscal 2006, which represents a 24.8% decrease from \$1,271 in fiscal 2005. The decrease is primarily attributable to a net loss on foreign currency of \$537 offset in part by an increase of \$208 in interest income.

#### **Provision for Income Taxes**

The effective tax rate for fiscal 2006 increased to 30.1% from 16.9% for fiscal 2005. The effective tax rate for fiscal 2005 included the recognition of certain deferred tax assets for foreign net operating loss carryforwards, which previously were fully offset by a valuation allowance in the amount of \$1,263. Excluding the recognition of the deferred tax assets, the effective tax rate for fiscal 2005 would have been 26.8%. The increase in the effective tax rate relates primarily to increased earnings in foreign tax jurisdictions with higher tax rates, primarily Germany.

#### **Discontinued Operations**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," the results of operations for one of the subsidiaries forming part of the Institutional Sanitary Supplies segment have been recorded as discontinued operations in the accompanying consolidated statements of income. The net loss from discontinued operations was \$27 and \$610 the fiscal years ended 2006 and 2005, respectively. The net loss from discontinued operations for the fiscal year ended 2005 includes a non-cash write-down of goodwill, net of an income tax benefit, of \$570.

#### **Liquidity and Capital Resources**

##### *Cash Flows*

At June 30, 2007, we had \$32,320 in cash, \$3,026 in short-term investments and only \$25 in short-term bank loans.

Our cash position at June 30, 2007 decreased \$1,412 from the amount at June 30, 2006. Operating activities for the year ended June 30, 2007 provided cash of \$4,163 as compared to cash provided by operations of \$16,028 for the comparable 2006 period. The \$4,163 was comprised of \$10,212 in net income and \$3,878 derived from adjustments for non-cash items, offset by a net \$9,927 decrease from changes in operating assets and liabilities. The non-cash items included \$1,791 in depreciation and amortization expense and \$1,692 for the deferred income taxes provision. Accounts receivable increased \$6,973 during the year ended June 30, 2007, due to increased sales during the fourth quarter of 2007 as compared to the

fourth quarter of 2006. Inventories increased by approximately \$12,565 and accounts payable increased by \$7,884 as a result of a ramp-up in orders for products to be shipped in the first quarter of 2008 and an increase in products in which we have decided to carry stock. Accrued expenses and other liabilities increased \$4,185 during the year ended June 30, 2007, due primarily to an increase in accrued expenses related to a joint venture, an increase in accrued expenses for our foreign subsidiaries related to increased sales and profitability overseas, as well as increase in accrued compensation related to increased performance payments, which are anticipated to be paid in the first quarter of 2008. Other receivables increased \$1,726 due to an increase in VAT taxes receivables in our European subsidiaries, related to increased sales in that region. Our cash position at June 30, 2006, increased \$13,782 from the amount at June 30, 2005. Operating activities provided cash of \$16,028, primarily from net income of \$9,237 and a decrease in inventory of \$4,909. Our cash position at June 30, 2005, decreased \$3,380 from the amount at June 30, 2004. Operating activities used cash of \$771, primarily due to inventories having been increased by \$10,188 in order to take advantage of current prices in an environment of rising prices and the anticipated revaluation of the Chinese currency which may increase future product costs. This was partially offset by net income of \$10,015.

Investing activities for the year ended June 30, 2007 used cash of \$2,591 primarily related to purchases of investments of \$6,274 and purchases of property and equipment and intangibles of \$704 and \$2,468, respectively, including \$2,000 for the Asulam product registration and related data filed with the United States Environmental Protection Agency and state regulatory agencies to support such registrations and other supporting data. The amount of cash used for investing activities is offset in part by \$6,779 of maturities of available for sale investments. We expect capital expenditures will be between \$1,000 and \$1,500 during fiscal 2008, including approximately \$600 for the opening of a facility in India. Investing activities for the year ended June 30, 2006 provided cash of \$1,387, primarily as a result of proceeds from the sale of investments of \$1,799. This was partially offset by \$485 of expenditures for property and equipment. Investing activities for the year end June 30, 2005 provided cash of \$486, primarily as a result of net proceeds from investments of \$4,537. This was partially offset by \$4,195 of expenditures for property and equipment, including the purchase of office space located in Shanghai, China in the amount of \$3,015.

Financing activities for the year ended June 30, 2007 used cash of \$3,991 primarily from the payments of dividends of \$4,257. Financing activities for the year ended June 30, 2006 used cash of \$4,009 primarily as a result of payments of cash dividends of \$3,637 and payments for purchases of treasury stock of \$581. Financing activities for the year end June 30, 2005 used cash of \$3,069 primarily as a result of payments of cash dividends of \$3,641 and payment of a related party note of \$500, which were partially offset by proceeds from the exercise of stock options of \$946.

#### *Credit Facilities*

We have available credit facilities with certain foreign financial institutions. These facilities provide us with a line of credit of \$19,472, as of June 30, 2007. 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 June 30, 2007, we had utilized \$702 in letters of credit, leaving \$9,298 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, sale of assets, sales of receivables, and loans and investments. We were in compliance with all covenants at June 30, 2007.

#### *Working Capital Outlook*

Working capital was \$112,930 at June 30, 2007, versus \$104,707 at June 30, 2006. The increase in working capital was primarily attributable to net income during the year. 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. The Company is considering forming 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 \$2,000 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 semi-annual cash dividends for the next twelve months. We may obtain additional credit facilities to enhance our liquidity.

## 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 that will affect our short and long-term liquidity. At June 30, 2007, we had no significant obligations for capital expenditures. At June 30, 2007, contractual cash obligations and other commercial commitments were as follows:

	Payments Due and/or Amount of Commitment (Expiration per Period)				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 Years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Operating leases	\$ 5,074	\$ 1,543	\$ 2,544	\$ 913	\$ 74
Commercial letters of credit	702	702	-	-	-
Standby letters of credit	225	225	-	-	-
Unconditional purchase obligations	<u>71,891</u>	<u>67,611</u>	<u>4,280</u>	-	-
Total	\$ <u>77,892</u>	\$ <u>70,081</u>	\$ <u>6,824</u>	\$ <u>913</u>	\$ <u>74</u>

Other significant commitments and contingencies include the following:

1. 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 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.
2. We, together with our subsidiaries, 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.
3. 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 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 currently believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

## **Related Party Transactions**

Certain of our directors are affiliated with law firms that serve as our legal counsel on various corporate matters. During fiscal years 2007, 2006 and 2005, we incurred legal fees of \$329, \$315 and \$215, respectively, for services rendered to the Company by those law firms. We believe that the fees charged by those firms were at rates comparable to rates obtainable from other firms for similar services.

## **Impact of New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board's ("FASB") EITF issued EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." The Task Force determined that the presentation of certain taxes on either a gross basis (included in revenues and expenses) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. An entity is not required to re-evaluate its existing policies related to taxes assessed by a governmental authority. However, an entity is required to disclose the amounts of such taxes reported on a gross basis. The Company has adopted EITF 06-3 and reports these taxes on a net basis.

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. The Company adopted the recognition and disclosure provisions of this statement for the year ended June 30, 2007. The adoption of this statement did not have a material impact on the Company's consolidated financial position.

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.

## **Item 7A. 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 \$3,036 at June 30, 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 \$304 as of June 30, 2007. 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 June 30, 2007, we had foreign currency contracts outstanding that had a notional amount of \$13,793. 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 June 30, 2007, was not material.

In addition, we enter into cross currency interest rate swaps to reduce foreign currency exposure on inter-company transactions. In June 2004 we entered into a one-year cross currency interest rate swap transaction, which expired in June 2005 when the underlying inter-company loan was repaid, and in May 2003 we entered into a five-year cross currency interest rate swap transaction, both for the purpose of hedging fixed-interest-rate, foreign-currency-denominated cash flows under inter-company loans. Under the terms of these derivative financial instruments, U.S. dollar fixed principal and interest payments to be received under inter-company loans will be swapped for Euro denominated fixed principal and interest payments. The change in fair value of the swaps from date of purchase to June 30, 2007, was \$(75). The gains or losses on the inter-company loans 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 swaps qualify as hedging activities, the change in their fair value, amounting to \$161 and \$42 in fiscal 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 (loss). On June 30, 2007, we had translation exposure to various foreign currencies, with the most significant being the Euro and the Chinese Renminbi. The potential loss as of June 30, 2007, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounted to \$5,791. 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 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 8. Financial Statements and Supplementary Data.**

The financial statements and supplementary data required by this Item 8 are set forth later in this report.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

As previously reported on Form 8-K dated November 29, 2005, the Company decided to change accountants. There were no disagreements with predecessor accountants.

## **Item 9A. 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 ensure 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 June 30, 2007 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended June 30, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of June 30, 2007, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, management concluded that our internal control over financial reporting as of June 30, 2007, was effective.

Our internal control over financial reporting as of June 30, 2007, has been audited by BDO Seidman LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Internal control over financial reporting is defined as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Aceto Corporation:

We have audited Aceto Corporation's internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aceto Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Aceto Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aceto Corporation as of June 30, 2007 and 2006, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years then ended and our report dated September 5, 2007, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Melville, New York  
September 5, 2007



**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission with respect to our annual meeting of shareholders scheduled to be held on December 6, 2007.

**Item 11. Executive Compensation**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission with respect to our annual meeting of shareholders scheduled to be held on December 6, 2007.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission with respect to our annual meeting of shareholders scheduled to be held on December 6, 2007.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission with respect to our annual meeting of shareholders scheduled to be held on December 6, 2007.

**Item 14. Principal Accountant Fees and Services**

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission with respect to our annual meeting of shareholders scheduled to be held on December 6, 2007.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this Report:

- (a) The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this Annual Report. All financial statement schedules have been included in the Consolidated Financial Statements or Notes thereto.
- (b) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 4(a)(iii) to Registration Statement No. 2-70623 on Form S-8 (S-8 2-70623)).
3.2	Certificate of Amendment dated November 21, 1985 to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(ii) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1986).
3.3	Amended and restated by-laws of Aceto Corporation, effective as of February 2, 2005 (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K dated February 2, 2005).
10.1	Aceto Corporation 401(k) Retirement Plan, effective August 1, 1997, as amended and restated as of July 1, 2002 (incorporated by reference to Exhibit 10.1 to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2004).

- 10.2 Supplemental Executive Retirement Plan, as amended and restated, effective June 30, 2004 and frozen as of December 31, 2004 (incorporated by reference to Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2004).
- 10.3 Aceto Corporation Stock Option Plan (as Amended and Restated effective as of September 19, 1990) (and as further Amended effective June 9, 1992) (incorporated by reference to Exhibit 10(v)(b) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1992).
- 10.4 1998 Aceto Corporation Omnibus Equity Award Plan (incorporated by reference to Exhibit 10(v) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1999).
- 10.5 Aceto Corporation 2002 Stock Option Plan (incorporated by reference to Exhibit 4(i) to Registration Statement No. 333-110653 on Form S-8).
- 10.6 Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2000).
- 10.7 Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi)(b) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
- 10.8 Lease between CDC Products Corp. and Seaboard Estates for manufacturing and office space at 1801 Falmouth Avenue, New Hyde Park, NY dated October 31, 1999 (incorporated by reference to Exhibit 10(vi)(c) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
- 10.9 Stock Purchase Agreement among Windham Family Limited Partnership, Peter H. Kliegman, CDC Products Corp. and Aceto Corporation (incorporated by reference to Exhibit 10(vii) to the Company's annual report on Form 10-K for the year ended June 30, 1999).
- 10.10 Asset Purchase Agreement among Magnum Research Corporation, CDC Products Corp., Roy Gross and Aceto Corporation (incorporated by reference to Exhibit 10 (viii) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
- 10.11 Asset Purchase Agreement between Schweizerhall, Inc. and Aceto Corporation (incorporated by reference to Exhibit 10(ix) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
- 10.12 Purchase and Sale Agreement among Schweizerhall Holding AG, Chemische Fabrik Schweizerhall, Schweizerhall, Inc., Aceto Corporation and Aceto Holding B.V., I.O. (incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K dated April 4, 2001).
- 10.13 Loan Guarantee between Aceto Corporation and subsidiaries and Deutsche Bank AG dated March 22, 2001 (incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the year ended June 30, 2001).
- 10.14 Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated May 10, 2002 (incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the year ended June 30, 2002).
- 10.15 Amendment and Waiver to Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated June 29, 2004 (incorporated by reference to Exhibit 10.15 to the Company's annual report on Form 10-K for the year ended June 30, 2004).
- 10.16 Waiver to Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated August 31, 2004 (incorporated by reference to Exhibit 10.16 to the Company's annual report on Form 10-K for the year ended June 30, 2004).

- 10.17 Share Purchase Agreement dated as of December 12, 2003 between Aceto Holding GmbH and Corange Deutschland Holding GmbH (incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K dated December 31, 2003).
- 10.18 Aceto Corporation Supplemental Executive Deferred Compensation Plan, effective March 14, 2005 (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K dated March 14, 2005).
- 10.19 Form of purchase agreement between Shanghai Zhongjin Real Estate Development Company Limited and Aceto (Hong Kong) Limited dated November 10, 2004 (incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2004).
- 10.20\* Amendment and Waiver to Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated June 26, 2007.
- 21.1\* Subsidiaries of the Company.
- 23.1\* Consent of BDO Seidman, LLP.
- 23.2\* Consent of KPMG LLP.
- 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

---

\*Filed herewith

**ACETO CORPORATION AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

Reports of Independent Registered Public Accounting Firms

Consolidated financial statements:

Consolidated balance sheets as of June 30, 2007 and 2006

Consolidated statements of income for the years ended June 30, 2007, 2006 and 2005

Consolidated statements of cash flows for the years ended June 30, 2007, 2006 and 2005

Consolidated statements of shareholders' equity and comprehensive income for the years ended June 30, 2007, 2006 and 2005

Notes to consolidated financial statements

Schedules:

II - Valuation and qualifying accounts

All other schedules are omitted because they are not required or the information required is given in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Aceto Corporation:

We have audited the accompanying consolidated balance sheets of Aceto Corporation and subsidiaries as of June 30, 2007 and 2006 and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index for the years ended June 30, 2007 and 2006. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial statement schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial statement schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the financial statement schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aceto Corporation and subsidiaries at June 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein for the years ended June 30, 2007 and 2006.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Aceto Corporation and subsidiaries' internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 5, 2007 expressed an unqualified opinion.

/s/ BDO Seidman, LLP

Melville, New York  
September 5, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Aceto Corporation:

We have audited the accompanying consolidated statements of income, shareholders' equity and comprehensive income, and cash flows of Aceto Corporation and subsidiaries for the year ended June 30, 2005. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index for the year ended June 30, 2005. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Aceto Corporation and subsidiaries for the year ended June 30, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Melville, New York  
September 8, 2005

**ACETO CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF JUNE 30, 2007 AND 2006**  
(in thousands, except per-share amounts)

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 32,320	\$ 33,732
Investments	3,036	3,309
Trade receivables: less allowance for doubtful accounts (2007, \$491; 2006, \$416)	58,206	50,993
Other receivables	3,123	1,406
Inventory	60,679	47,259
Prepaid expenses and other current assets	1,128	1,011
Deferred income tax asset, net	<u>2,541</u>	<u>3,396</u>
Total current assets	161,033	141,106
Long-term notes receivable	449	557
Property and equipment, net	4,406	4,808
Property held for sale	5,268	4,531
Goodwill	1,820	1,755
Intangible assets, net	5,817	3,789
Deferred income tax asset, net	5,958	7,356
Other assets	<u>3,727</u>	<u>2,690</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 188,478</u></b>	<b><u>\$ 166,592</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 32,539	\$ 24,424
Short term bank loans	25	-
Note payable – related party	500	500
Accrued expenses	14,154	10,612
Deferred income tax liability	<u>885</u>	<u>863</u>
Total current liabilities	48,103	36,399
Long-term liabilities	6,684	6,379
Environmental remediation liability	5,816	5,200
Deferred income tax liability	2,746	3,329
Minority interest	<u>302</u>	<u>232</u>
Total liabilities	63,651	51,539
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common stock, \$.01 par value, 40,000 shares authorized; 25,644 shares issued; 24,330 and 24,278 shares outstanding at June 30, 2007 and 2006, respectively	256	256
Capital in excess of par value	56,854	56,691
Retained earnings	74,419	68,464
Treasury stock, at cost, 1,314 and 1,366 shares at June 30, 2007 and 2006, respectively	(12,693)	(13,198)
Accumulated other comprehensive income	<u>5,991</u>	<u>2,840</u>
Total shareholders' equity	<u>124,827</u>	<u>115,053</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$188,478</u></b>	<b><u>\$166,592</u></b>

See accompanying notes to consolidated financial statements.

**ACETO CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
(in thousands, except per-share amounts)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales	\$313,473	\$297,328	\$313,431
Cost of sales	<u>258,980</u>	<u>246,370</u>	<u>260,280</u>
Gross profit	54,493	50,958	53,151
Selling, general and administrative expenses	<u>39,429</u>	<u>38,529</u>	<u>41,561</u>
Operating income	15,064	12,429	11,590
Other income (expense):			
Interest expense	(173)	(127)	(73)
Interest and other income, net	<u>532</u>	<u>956</u>	<u>1,271</u>
	<u>359</u>	<u>829</u>	<u>1,198</u>
Income from continuing operations before income taxes	15,423	13,258	12,788
Provision for income taxes	<u>5,211</u>	<u>3,994</u>	<u>2,163</u>
Income from continuing operations	10,212	9,264	10,625
Loss from discontinued operations, net of income taxes (Note 3)	<u>-</u>	<u>(27)</u>	<u>(610)</u>
Net income	<u>\$10,212</u>	<u>\$ 9,237</u>	<u>\$10,015</u>
Basic income per common share:			
Income from continuing operations	\$ 0.42	\$ 0.38	\$ 0.44
Loss from discontinued operations	<u>-</u>	<u>-</u>	<u>(0.03)</u>
Net income	\$ 0.42	\$ 0.38	\$ 0.41
Diluted income per common share:			
Income from continuing operations	\$ 0.41	\$ 0.38	\$ 0.43
Loss from discontinued operations	<u>-</u>	<u>-</u>	<u>(0.02)</u>
Net income	\$ 0.41	\$ 0.38	\$ 0.41
Weighted average shares outstanding:			
Basic	24,305	24,267	24,198
Diluted	24,711	24,590	24,670

See accompanying notes to consolidated financial statements.



**ACETO CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Operating activities:</b>			
Net income	\$10,212	\$ 9,237	\$10,015
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,791	1,558	1,291
Goodwill impairment charge relating to discontinued operations	-	-	920
Asset impairment charge	-	-	619
Gain on sale of assets	-	(66)	(10)
Provision for doubtful accounts	132	38	352
Non-cash stock compensation	443	278	329
Unrealized gain on trading securities	(180)	(40)	(110)
Income tax benefit on exercise of stock options	-	-	142
Deferred income taxes	1,692	1,134	650
Changes in assets and liabilities:			
Investments – trading securities	-	-	341
Trade accounts receivable	(6,973)	(227)	3,110
Other receivables	(1,726)	129	80
Income taxes receivable	-	-	232
Inventory	(12,565)	4,909	(10,188)
Prepaid expenses and other current assets	(96)	(182)	401
Other assets	(636)	(719)	(363)
Accounts payable	7,884	(3,962)	(8,681)
Accrued expenses and other liabilities	<u>4,185</u>	<u>3,941</u>	<u>99</u>
Net cash provided by (used in) operating activities	<u>4,163</u>	<u>16,028</u>	<u>(771)</u>
<b>Investing activities:</b>			
Purchases of investments	(6,274)	-	(4,463)
Proceeds from sale of investments	-	1,799	9,000
Maturities of investments	6,779	-	-
Payments received on notes receivable	151	73	144
Issuance of notes receivable	(75)	-	-
Purchase of intangible assets	(2,468)	-	-
Purchases of property and equipment, net	<u>(704)</u>	<u>(485)</u>	<u>(4,195)</u>
Net cash (used in) provided by investing activities	<u>(2,591)</u>	<u>1,387</u>	<u>486</u>
<b>Financing activities:</b>			
Proceeds from exercise of stock options	217	250	946
Excess income tax benefit on exercise of stock options	24	85	-
Payment of note payable – related party	-	-	(500)
Payment of cash dividends	(4,257)	(3,637)	(3,641)
Payments for purchases of treasury stock	-	(581)	-
Borrowings (repayments) of short-term bank loans	<u>25</u>	<u>(126)</u>	<u>126</u>
Net cash used in financing activities	<u>(3,991)</u>	<u>(4,009)</u>	<u>(3,069)</u>
Effect of foreign exchange rate changes on cash	<u>1,007</u>	<u>376</u>	<u>(26)</u>
Net (decrease) increase in cash and cash equivalents	(1,412)	13,782	(3,380)
Cash and cash equivalents at beginning of period	<u>33,732</u>	<u>19,950</u>	<u>23,330</u>
Cash and cash equivalents at end of period	<u>\$32,320</u>	<u>\$33,732</u>	<u>\$19,950</u>

See accompanying notes to consolidated financial statements.

**ACETO CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
(in thousands, except per-share amounts)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income	Total
	Shares	Amount			Shares	Amount		
Balance at June 30, 2004	25,644	\$256	\$57,111	\$ 56,490	(1,526)	(\$15,135)	\$ 1,544	\$ 100,266
Net income	-	-	-	10,015	-	-	-	10,015
Other comprehensive income:								
Change in fair value of cross currency interest rate swaps	-	-	-	-	-	-	49	49
Foreign currency translation adjustments	-	-	-	-	-	-	(383)	(383)
Unrealized loss on available for sale investments	-	-	-	-	-	-	(52)	(52)
Additional minimum pension liability	-	-	-	-	-	-	(21)	(21)
Comprehensive income:								<u>9,608</u>
Stock issued pursuant to employee stock incentive plans	-	-	(74)	-	41	408	-	334
Cash dividends (\$0.11 per share)	-	-	-	(3,641)	-	-	-	(3,641)
Exercise of stock options	-	-	(276)	-	123	1,222	-	946
Tax benefit from exercise of stock options	-	-	142	-	-	-	-	142
Balance at June 30, 2005	25,644	256	56,903	62,864	(1,362)	(13,505)	1,137	107,655
Net income	-	-	-	9,237	-	-	-	9,237
Other comprehensive income:								
Change in fair value of cross currency interest rate swap	-	-	-	-	-	-	42	42
Foreign currency translation adjustments	-	-	-	-	-	-	1,682	1,682
Unrealized loss on available for sale investments	-	-	-	-	-	-	(42)	(42)
Additional minimum pension liability	-	-	-	-	-	-	21	21
Comprehensive income:								<u>10,940</u>
Stock issued pursuant to employee stock incentive plans	-	-	(66)	-	20	219	-	153
Cash dividends (\$0.15 per share)	-	-	-	(3,637)	-	-	-	(3,637)
Share-based compensation	-	-	188	-	-	-	-	188
Purchases of treasury stock	-	-	-	-	(96)	(581)	-	(581)
Exercise of stock options	-	-	(419)	-	72	669	-	250
Tax benefit from exercise of stock options	-	-	85	-	-	-	-	85
Balance at June 30, 2006	25,644	256	56,691	68,464	(1,366)	(13,198)	2,840	115,053
Net income	-	-	-	10,212	-	-	-	10,212
Other comprehensive income:								
Change in fair value of cross currency interest rate swap	-	-	-	-	-	-	161	161
Foreign currency translation adjustments	-	-	-	-	-	-	2,900	2,900
Unrealized gain on available for sale investments	-	-	-	-	-	-	52	52
Comprehensive income:								<u>13,325</u>
Adjustment to adopt SFAS No. 158, net of tax of \$25	-	-	-	-	-	-	38	38
Stock issued pursuant to employee stock incentive plans	-	-	(44)	-	15	142	-	98
Cash dividends (\$0.175 per share)	-	-	-	(4,257)	-	-	-	(4,257)
Share-based compensation	-	-	329	-	-	-	-	329
Exercise of stock options	-	-	(146)	-	37	363	-	217
Tax benefit from exercise of stock options	-	-	24	-	-	-	-	24
Balance at June 30, 2007	25,644	\$256	\$56,854	\$ 74,419	(1,314)	(\$12,693)	\$ 5,991	\$124,827

See accompanying notes to consolidated financial statements.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

**(1) Description of Business**

Aceto Corporation and subsidiaries ("Aceto" or the "Company") is primarily engaged in the sourcing, regulatory support, marketing and distribution of chemically derived pharmaceuticals, biopharmaceuticals, specialty chemicals and crop protection products used principally as raw materials in the agricultural, color, pharmaceutical, surface coating/ink and general chemical consuming industries. Most of the chemicals distributed by the Company are purchased from companies located outside the United States. The Company's customers are primarily located throughout the United States, Europe and Asia.

**(2) Summary of Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. In addition, the financial statements of S.R.F.A. LLC, a joint-venture entity which is 50% owned by the Company and commenced operations in April 2004, are included in the consolidated financial statements in accordance with FASB Interpretation 46R, "Consolidation of Variable Interest Entities" (FIN 46R). All significant inter-company balances and transactions are eliminated in consolidation.

**Use of Estimates**

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 and the disclosure of contingent assets and liabilities at the date of the 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; inventory; goodwill and other indefinite-life intangible assets; long-lived assets; environmental matters and other contingencies; income taxes; and stock-based compensation.

**Cash Equivalents**

The Company considers all highly liquid debt instruments with original maturities at the time of purchase of three months or less to be cash equivalents.

**Investments**

The Company classifies investments in marketable securities as trading, available-for-sale or held-to-maturity at the time of purchase and periodically re-evaluates such classifications. Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Held-to-maturity securities are recorded at cost and are adjusted for the amortization or accretion of premiums or discounts over the life of the related security. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. In determining realized gains and losses, the cost of securities sold is based on the specific identification method. Interest and dividends on the investments are accrued at the balance sheet date.

**Inventories**

Inventories, which consist principally of finished goods, are stated at the lower of cost (first-in first-out method) or market. The Company writes down its inventories for estimated excess and obsolete goods by an amount equal to the difference between the carrying cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions.

**Environmental and Other Contingencies**

The Company establishes accrued liabilities for environmental matters and other contingencies when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. If the contingency is resolved for an amount greater or less than the accrual, or the Company's share of the contingency increases or decreases, or other

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

assumptions relevant to the development of the estimate were to change, the Company would recognize an additional expense or benefit in the consolidated statements of income in the period such determination was made.

**Pension Benefits**

In connection with certain historical acquisitions in Germany, the Company assumed defined benefit pension plans covering certain employees who meet certain eligibility requirements. The net pension benefit obligations recorded and the related periodic costs are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases and the mortality of participants. The obligation for these claims and the related periodic costs are measured using actuarial techniques and assumptions. Actuarial gains and losses are deferred and amortized over future periods. The Company's plans are funded in conformity with the funding requirements of applicable government regulations.

**Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income as of June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Fair value of cross currency interest rate swaps	\$ (75)	\$ (236)
Cumulative foreign currency translation adjustments	6,070	3,170
Unrealized loss on available for sale investments	(42)	(94)
Adjustment to adopt SFAS No. 158	<u>38</u>	<u>-</u>
Total	<u>\$5,991</u>	<u>\$2,840</u>

The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-US subsidiaries.

**Common Stock**

On May 4, 2005, the Board of Directors of the Company authorized the extension of the Company's stock repurchase program for an additional three years, expiring in May 2008. Under the stock repurchase program, the Company is authorized to purchase up to an additional 4,147 shares of common stock (4,051 shares available as of June 30, 2007), in open market or private transactions, at prices not to exceed the market value of the common stock at the time of such purchase.

On December 2, 2004, the Board of Directors of the Company declared a 3-for-2 stock split, effected in the form of a dividend, that was paid January 10, 2005 to shareholders of record on December 24, 2004. The Company transferred \$80 to common stock from capital in excess of par value, representing the aggregate par value of the 8,073 shares issued.

**Stock Options**

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

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

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.

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, option term, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions that are based on factual data derived from public sources, the expected stock-price volatility and option term assumptions require a greater level of judgment.

The Company uses an expected stock-price volatility assumption that is based on the historical daily price changes of the underlying stock which are obtained from public data sources. For stock option grants issued during fiscal 2007 and 2006, an expected stock-price volatility of 57% and 50%, respectively, was used based upon the historical volatility at the time of issuance. With regard to the weighted-average option term assumption, for stock option grants issued during fiscal 2007 and 2006, an expected option term assumption of 5.5 years was used as determined under the "simplified" method prescribed in SEC Staff Accounting Bulletin ("SAB") No. 107.

The following table illustrates the effect on net income and net income per common share as if the Company had measured the compensation cost for the Company's stock option programs under the fair value method for the fiscal year ended June 30, 2005:

	<u>2005</u>
Net income – as reported	\$10,015
Add: Stock-based compensation included in reported net income	329
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	<u>(4,643)</u>
Net income – pro forma	<u>\$ 5,701</u>
Net income per share:	
Basic – as reported	\$ 0.41
Basic – pro forma	\$ 0.24
Diluted – as reported	\$ 0.41
Diluted – pro forma	\$ 0.23

Stock-based employee compensation expense under the fair value method for the fiscal year ended June 30, 2005, includes \$6,046, which represents the entire fair value of 1,322 options granted to employees and 61 options granted to directors in September 2004, all of which had an exercise price equal to or greater than the market value of the common stock on the date of grant, as those options were vested as of their date of grant.

**Revenue Recognition**

The Company recognizes revenue from product sales at the time of shipment and passage of title and risk of loss to the customer. The Company has no acceptance or other post-shipment obligations and does not offer product warranties or services to its customers.

Sales are recorded net of returns of damaged goods from customers, which historically have been immaterial, and sales incentives offered to customers. The Company's sales incentives consist primarily of volume incentive rebates. The Company records such volume incentive rebates as the underlying revenue transactions that result in progress by the

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

customer in earning the rebate are recorded, in accordance with Emerging Issues Task Force (EITF) 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

**Shipping and Handling Fees and Costs**

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are included in net sales. The costs incurred by the Company for shipping and handling are reported as a component of cost of sales. Cost of sales also includes inbound freight, receiving, inspection, warehousing, distribution network, and customs and duty costs.

**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 406, 323 and 472 shares for the years ended June 30, 2007, 2006 and 2005, respectively. There were 1,443, 1,638 and 1,096 stock options outstanding that were not included in the calculation of diluted income per common share for the years ended June 30, 2007, 2006 and 2005, respectively because their effect would have been anti-dilutive.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Property and Equipment**

Property and equipment are stated at cost and are depreciated using the straight line method over the estimated useful lives of the related asset. Expenditures for improvements that extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any related gains or losses are included in income.

The components of property and equipment were as follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Estimated useful life (years)</u>
Machinery and equipment	\$ 964	\$ 741	10
			Shorter of asset life or lease term
Leasehold improvements	330	322	
Computer equipment and software	3,763	3,523	3-5
Furniture and fixtures	1,100	952	10
Automobiles	497	423	3
Building	<u>3,015</u>	<u>3,015</u>	20
	\$ 9,669	\$ 8,976	
Accumulated depreciation and amortization	<u>5,263</u>	<u>4,168</u>	
	<u>\$ 4,406</u>	<u>\$ 4,808</u>	

Property held for sale represents land and land improvements of \$5,268 and \$4,531 at June 30, 2007 and 2006, respectively. During fiscal 2007 the Company recorded an additional \$737 to partially recognize the capitalized environmental costs up to the fair value of the land and land improvements to the extent of additional environmental remediation cost estimates in accordance with EITF 90-8 "Capitalization of Costs to Treat Environmental Contamination".

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

Depreciation and amortization of property and equipment amounted to \$1,067, \$943, and \$749 for the years ended June 30, 2007, 2006, and 2005, respectively.

**Goodwill and Other Intangibles**

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. Other intangible assets principally consist of customer relationships, patent license, EPA registrations and related data, trademarks, purchased customer lists and covenants not to compete. Goodwill and other intangible assets that have an indefinite life are not amortized.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company tests goodwill and other intangible assets for impairment on at least an annual basis. Goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. To determine the fair value of these intangible assets, the Company uses many assumptions and estimates that directly impact the results of the testing. In making these assumptions and estimates, the Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management.

**Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Accounting for Derivatives and Hedging Activities**

The Company accounts for derivatives and hedging activities under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which establishes accounting and reporting guidelines for derivative instruments and hedging activities. SFAS No. 133 requires the recognition of all derivative financial instruments as either assets or liabilities in the statement of financial condition and measurement of those instruments at fair value. Changes in the fair values of those derivatives are reported in earnings or other comprehensive income depending on the designation of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the consolidated financial statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value or cash flows of the asset or liability hedged. Under the provisions of SFAS No. 133, the method that is used for assessing the effectiveness of a hedging derivative, as well as the measurement approach for determining the ineffective aspects of the hedge, is established at the inception of the hedged instrument.

For derivatives designated as fair value hedges, changes in fair value are recognized in earnings. If the fair value hedge is fully effective, the change in fair value of the hedged item attributable to the hedged risk is adjusted to fair value and is also recognized in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

The Company enters into cross currency interest rate swaps to reduce foreign currency exposure on inter-company transactions. The gains or losses on the inter-company loans due to changes in foreign currency rates will be offset by the gains or losses on the swap in the statements of income. Since the Company's interest rate swaps qualify as cash flow hedging activities, the change in their fair value is recorded in accumulated other comprehensive income.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

The Company operates internationally, therefore its earnings, cash flows and financial positions are exposed to foreign currency risk from foreign-currency-denominated receivables and payables, which, in the U.S., have been denominated in various foreign currencies, including Euros, British Pounds, Japanese Yen, Singapore Dollars and Chinese Renminbi and at certain foreign subsidiaries in U.S. dollars and other non-local currencies.

Management believes it is prudent to minimize the risk caused by foreign currency fluctuation. Management minimizes the currency risk on its foreign currency receivables and payables by purchasing future foreign currency contracts (futures) with one of its financial institutions. Futures are traded on regulated U.S. and international exchanges and represent commitments to purchase or sell a particular foreign currency at a future date and at a specific price. Since futures are purchased for the amount of the foreign currency receivable or for the amount of foreign currency needed to pay for specific purchase orders, and the futures mature on the due date of the related foreign currency vendor invoices or customer receivables, the Company believes that it eliminates risks relating to foreign currency fluctuation. The Company takes delivery of all futures to pay suppliers in the appropriate currency. The gains or losses for the changes in the fair value of the foreign currency contracts are recorded in cost of sales (sales) and offset the gains or losses associated with the impact of changes in foreign exchange rates on trade payables (receivables) denominated in foreign currencies. Senior management and members of the financial department continually monitor foreign currency risks and the use of this derivative instrument.

#### **Foreign Currency**

The functional currency of the Company's foreign subsidiaries is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts and cash flows using average rates of exchange prevailing during the year. Adjustments resulting from the translation of foreign currency financial statements are accumulated in a separate component of stockholders' equity.

#### **Reclassifications**

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

#### **(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 other income in the statement of income for the year ended June 30, 2006. The Company recorded an asset impairment charge relating to CDC of \$619 included in selling, general and administrative expenses in the consolidated statement of income for the year ended June 30, 2005. The asset impairment charge related to certain leasehold improvements which were deemed to have no future value and thus the Company wrote-off those assets. 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. Beginning in July 2005, the operating results of the Anti-Clog product, which are not material, are included in 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 included in discontinued operations in the consolidated statements of income. In December 2005, the Company exited the leased space previously occupied by CDC and Magnum Research Corp. In June 2006, the Company negotiated a lease termination with its landlord which resulted in a pre-tax charge of \$378 included in selling, general and administrative expenses for the year ended June 30, 2006.



**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

Operating results of discontinued operations for the fiscal years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Net sales	\$ <u>154</u>	\$ <u>1,314</u>
Loss from operations of discontinued business	(44)	(64)
Benefit for income taxes	17	24
Non-cash impairment charge	-	(920)
Benefit for income taxes	<u>-</u>	<u>350</u>
Loss from discontinued operations	<u>\$ (27)</u>	<u>\$ (610)</u>

The \$920 non-cash impairment charge included in the table of operating results of discontinued operations for the fiscal year ended June 30, 2005 relates to a write-down of goodwill, net of an income tax benefit, of \$570 for Magnum Research Corp., the remaining reporting unit that was sold, which was part of the former Institutional Sanitary Supplies segment. The goodwill amount that was written down had been previously allocated to this reportable segment.

**(4) Investments**

A summary of short-term investments was as follows:

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Fair Value</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Cost Basis</u>
<u>Trading securities</u>				
Corporate equity securities	\$ 877	\$ 152	\$ 697	\$ 152
<u>Available for sale securities</u>				
Corporate bonds	\$ 1,187	\$ 1,203	\$ 1,167	\$ 1,210
Government and agency securities	<u>\$ 972</u>	<u>\$ 1,000</u>	<u>\$ 1,445</u>	<u>\$ 1,501</u>
	<u>\$ 3,036</u>		<u>\$ 3,309</u>	

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 gains on trading securities were \$180, \$40 and \$110 for fiscal 2007, 2006 and 2005, respectively.

**(5) Notes Receivable**

The Company has four notes receivable with outstanding balances aggregating \$482 and \$624 at June 30, 2007 and June 30, 2006, respectively, which have arisen from sales of property. The notes are either secured by a first mortgage on the real property sold or collateralized by a security interest in the asset sold. The notes range in length from seven to ten years and earn interest at a fixed rate. The range of fixed rates on the notes is 5.5% to 7.0%. Included in current assets are the current portions of the notes receivable due within one year totaling \$74 and \$67 at June 30, 2007 and 2006, respectively.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

**(6) Goodwill and Other Intangible Assets**

Goodwill of \$1,820 and \$1,755 as of June 30, 2007 and June 30, 2006, respectively, relates to the Health Sciences segment and reporting unit.

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

	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<u>June 30, 2007</u>			
Customer relationships	\$ 2,958	\$ 1,479	\$ 1,479
Patent license	838	133	705
EPA registrations and related data	2,733	98	2,635
Non-compete agreements	<u>247</u>	<u>173</u>	<u>74</u>
	<u>\$ 6,776</u>	<u>\$ 1,883</u>	<u>\$ 4,893</u>
	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<u>June 30, 2006</u>			
Customer relationships	\$ 2,755	\$ 984	\$ 1,771
Customer lists	600	600	-
Patent license	838	57	781
EPA registrations and related data	265	3	262
Non-compete agreements	<u>230</u>	<u>115</u>	<u>115</u>
	<u>\$ 4,688</u>	<u>\$ 1,759</u>	<u>\$ 2,929</u>

The estimated useful lives of customer relationships, patent license, EPA registrations and related data and non-compete agreements are 7 years, 11 years, 10 years and 3-5 years, respectively.

As of June 30, 2007 and June 30, 2006, the Company also had \$924 and \$860, respectively, of intangible assets pertaining to trademarks which have indefinite lives and are not subject to amortization.

In fiscal 2007 and 2006, changes in goodwill and trademarks are attributable to foreign currency exchange rates used to translate the financial statements of foreign subsidiaries.

Amortization expense for intangible assets subject to amortization amounted to \$724, \$615 and \$542 for the years ended June 30, 2007, 2006 and 2005, respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the succeeding years ended June 30, 2008 through June 30, 2013 are as follows: 2008: \$838; 2009: \$813; 2010: \$788; 2011: \$577; 2012: \$366 and 2013 and thereafter: \$1,511.

**(7) Accrued Expenses**

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

	<u>2007</u>	<u>2006</u>
Accrued compensation	\$ 3,749	\$ 2,949
Accrued environmental remediation costs	321	200
Accrued income taxes payable	1,504	2,019
Other accrued expenses	<u>8,580</u>	<u>5,444</u>
	<u>\$14,154</u>	<u>\$10,612</u>

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

**(8) Environmental Remediation**

In May 2007, 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 \$2,100 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 the evidence does not show that the hazardous materials sent by Aceto's subsidiary 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's subsidiary 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's subsidiary sent to the site, most of which were non-hazardous substances and as such, believes that its subsidiary is a very minor 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, 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 2007, 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 \$6,136 and \$7,611. As of June 30, 2007 and 2006 a liability of \$6,136 and \$5,400, respectively, is included in the accompanying consolidated balance sheet. In accordance with EITF Issue 90-8, "Capitalization of Costs to Treat Environmental Contamination" management believes that the majority of costs incurred to remediate the site will be capitalized in preparing the property which is currently classified as 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.

In March 2006, Arsynco received notice from the 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.

**(9) Financing Arrangements**

The Company has a revolving credit agreement with a financial institution that expires June 30, 2010 and provides for available credit of \$10,000. Under the credit agreement, the Company may obtain credit through direct borrowings and letters of credit. The obligations of the Company under the credit agreement are guaranteed by certain of the Company's subsidiaries and are secured by 65% of the capital of certain non-domestic subsidiaries which the Company owns. There is no borrowing base on the credit agreement. Interest under the credit agreement is at LIBOR plus 1.50%, which was 6.82%, 7.19% and 4.93% at June 30, 2007, 2006 and 2005, respectively. The credit agreement contains several financial covenants requiring, among other things, minimum levels of debt service and tangible net worth. The Company is also subject to certain restrictive debt covenants including liens, limitations on indebtedness, limitations on cash dividends, guarantees, sale of assets, sales of receivables, and loans and investments. The Company was in compliance with all covenants at June 30, 2007.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**

*(in thousands, except per-share amounts)*

At June 30, 2007 and 2006, the Company had available lines of credit with foreign financial institutions totaling \$19,472 and \$18,512, respectively. The Company has issued a cross corporate guarantee to the foreign banks. Short term loans under these agreements bear interest at LIBOR plus 0.75%, which was 6.07%, 6.44% and 4.18% at June 30, 2007, 2006 and 2005, respectively. The Company is not subject to any financial covenants under these arrangements.

Under the above financing arrangements, the Company had \$25 in short-term bank loans outstanding and \$702 in letters of credit leaving an unused facility of \$28,770 at June 30, 2007. At June 30, 2006 the Company had no short-term bank loans outstanding and \$1,349 in letters of credit leaving an unused facility of \$27,163.

**(10) Stock Based Compensation Plans**

In September 2002, the Company adopted the Aceto Corporation 2002 Stock Option Plan ("2002 Plan"), which was ratified by the Company's shareholders in December 2002. Under the 2002 Plan, restricted stock or options to purchase up to 1,688 shares of the Company's common stock may be granted by the Company to officers, directors, employees and agents of the Company. The exercise price per share shall not be less than the market value of Aceto common stock on the date of grant and each option may not become exercisable less than six months from the date it is granted. Restricted stock may be granted to an eligible participant in lieu of a portion of any annual cash bonus earned by such participant. Such award may include additional shares of restricted stock (premium shares) greater than the portion of bonus paid in restricted stock. The restricted stock award is vested at issuance and the restrictions lapse ratably over a period of years as determined by the Board of Directors, generally three years. The premium shares vest when all the restrictions lapse, provided that the participant remains employed by the Company at that time.

During the year ended June 30, 2007, the Company granted 65 options to certain employees and directors at a weighted average exercise price of \$8.25 per share. The options vest on the first anniversary of the date of grant and expire ten years from the date of grant.

In January 2006, the Company granted 131 options to certain employees and directors at an exercise price of 6.82 per share. The options vest on the first anniversary of the date of grant and expire ten years from the date of grant.

All options granted were at exercise prices equal to the market value of the common stock on the date of grant. As of June 30, 2007, there were 94 shares of common stock available for grant as either options or restricted stock under the 2002 Plan.

In December 1998, the Company adopted the Aceto Corporation 1998 Omnibus Equity Award Plan ("1998 Plan"). In accordance with the 1998 Plan the Company's Board of Directors ("Board") may grant up to 1,688 shares of common stock in the form of stock options or restricted stock to eligible participants. The exercise price per share, determined by the Board, for options granted cannot be less than the market value of the stock on the date of grant. The options vest as determined by the Board and expire no later than ten years from the date of grant. Restricted stock may be granted to an eligible participant in lieu of a portion of any annual cash bonus earned by such participant. Such restricted stock award may include premium shares greater than the portion of bonus paid in restricted stock. The restricted stock award is vested at issuance and the restrictions lapse ratably over a period of years as determined by the Board. The premium shares vest when the restrictions lapse, provided that the participant remains employed by the Company at that time. Under the 1998 Plan, there were 67 shares of common stock available for grant as either options or restricted stock at June 30, 2007.

Under the terms of the Company's 1980 Stock Option Plan, as amended ("1980 Plan"), options may be issued to officers and key employees. The exercise price per share can be greater or less than the market value of the stock on the date of grant. The options vest either immediately or over a period of years as determined by the Board of Directors and expire no later than five or ten years from the original date they are fully vested. The 1980 Plan expired September 2005. Outstanding options survive the expiration of the 1980 Plan.

In September 2004, the Company granted 1,317 options under the 1980 Plan to employees, 64 options under the 1998 Plan to directors and employees and 2 options under the 2002 Plan to employees at an exercise price of \$10.95 per share which was equal to the market value of the common stock on the date of grant. These options were vested as of their date of grant and will expire ten years from such date.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

The following summarizes the shares of common stock under option for all plans at June 30, 2007, 2006 and 2005, and the activity with respect to options for the respective years then ended:

	Shares subject to option	Weighted average exercise price per share	Aggregate Intrinsic Value
Balance at June 30, 2004	1,632	\$ 4.72	
Granted	1,383	10.95	
Exercised	(171)	5.18	
Forfeited	(80)	9.62	
Balance at June 30, 2005	2,764	7.65	
Granted	131	6.82	
Exercised	(72)	3.88	
Forfeited	(80)	10.65	
Balance at June 30, 2006	2,743	7.62	
Granted	65	8.25	
Exercised	(38)	6.02	
Forfeited	(70)	10.26	
Balance at June 30, 2007	2,700	\$ 7.58	\$6,499
Options exercisable at June 30, 2007	2,635	\$ 7.57	\$6,434

The total intrinsic value of stock options exercised during the years ended June 30, 2007, 2006 and 2005 was approximately \$106, \$234 and \$1,045, respectively. At June 30, 2007, outstanding options had expiration dates ranging from December 10, 2008 to April 30, 2017.

Under the 2002 Plan and the 1998 Plan, compensation expense is recorded for the market value of the restricted stock awards in the year the related bonus is earned and over the vesting period for the market value at the date of grant of the premium shares granted. In fiscal 2007, 2006 and 2005, restricted stock awarded and premium shares vested of 15, 20 and 41 common shares, respectively, were issued from treasury stock under employee incentive plans, which increased stockholders' equity by \$98, \$153 and \$334, respectively. The related non-cash compensation expense related to the restricted stock granted and the vesting of premium shares during the year, which are issuable only when fully vested, was \$114, \$90 and \$329 in fiscal 2007, 2006 and 2005, respectively. Additionally, non-cash compensation expense of \$329 and \$188 was recorded in fiscal 2007 and 2006, respectively, relating to stock option grants, which is included in selling, general and administrative expenses.

The following summarizes the non-vested stock options at June 30, 2007 and the activity with respect to non-vested options for the year ended June 30, 2007:

	Shares subject to option	Weighted average grant date fair value
Non-vested at June 30, 2006	130	\$2.87
Granted	65	3.96
Vested	(129)	2.87
Forfeited	(1)	2.87
Non-vested at June 30, 2007	65	\$3.96

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

Non-cash compensation expense for non-vested options at June 30, 2007 of \$109 will be expensed during fiscal 2008. The per-share weighted-average fair value of stock options granted during 2007, 2006 and 2005 was \$3.96, \$2.87 and \$4.38, respectively, on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Date of Grant	Expected Volatility (%)	Expected Life (years)	Risk-free interest rate	Dividend yield (%)
<u>Fiscal 2007:</u>				
July 2006	57	5.5	4.36	2.22
December 2006	57	5.5	4.40	1.80
March 2007	58	5.5	4.50	1.90
April 2007	57	5.5	5.02	2.50
<u>Fiscal 2006:</u>				
January 2006	50	5.5	4.36	2.22
<u>Fiscal 2005:</u>				
September 2004	40	6.0	3.76	1.04

**(11) Interest and Other Income**

Interest and other income during fiscal 2007, 2006 and 2005 was comprised of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividends	\$ 64	\$ 133	\$ 86
Interest	1,045	590	459
Net gain on investments	174	29	117
Foreign government subsidies received	152	561	457
Minority interest	(70)	(61)	(14)
Foreign currency (losses) gains	(770)	(354)	182
Miscellaneous	(63)	58	(16)
	<u>\$ 532</u>	<u>\$ 956</u>	<u>\$ 1,271</u>

**(12) Income Taxes**

The components of income from continuing operations before the provision for income taxes are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Domestic operations	\$ 2,988	\$ 1,981	\$ (332)
Foreign operations	<u>12,435</u>	<u>11,277</u>	<u>13,120</u>
	<u>\$ 15,423</u>	<u>\$ 13,258</u>	<u>\$ 12,788</u>

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

The components of the provision for income taxes are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal:			
Current	\$ 788	\$ 105	\$ 293
Deferred	208	335	(692)
State and local:			
Current	270	187	126
Deferred	6	126	(184)
Foreign:			
Current	2,461	2,568	1,023
Deferred	<u>1,478</u>	<u>673</u>	<u>1,597</u>
	<u>\$ 5,211</u>	<u>\$ 3,994</u>	<u>\$ 2,163</u>

Income taxes payable, which is included in accrued expenses, was \$1,504 and \$2,019 at June 30, 2007 and 2006, respectively.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at June 30, 2007 and 2006 are presented below:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Accrued environmental remediation liabilities not currently deductible	\$ 461	\$ 461
Accrued deferred compensation	1,360	1,159
Additional inventoried costs for tax purposes	168	124
Allowance for doubtful accounts receivable	132	116
Depreciation and amortization	-	223
Other	80	53
Impairment charges	196	585
Domestic net operating loss carryforwards	333	376
Foreign net operating loss carryforwards	<u>8,738</u>	<u>10,695</u>
Total gross deferred tax assets	11,468	13,792
Valuation allowances	<u>(2,502)</u>	<u>(2,450)</u>
	<u>8,966</u>	<u>11,342</u>
Deferred tax liabilities:		
Foreign deferred tax liabilities	(3,631)	(4,192)
Unrealized gain on investments	(313)	(207)
Goodwill	(143)	(383)
Depreciation and amortization	<u>(11)</u>	<u>-</u>
Total gross deferred tax liabilities	<u>(4,098)</u>	<u>(4,782)</u>
Net deferred tax assets	<u>\$ 4,868</u>	<u>\$ 6,560</u>

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

The following table shows the current and non current deferred tax assets (liabilities) at June 30, 2007 and 2006:

	2007	2006
Current deferred tax assets, net	\$ 2,541	\$ 3,396
Non-current deferred tax assets, net	5,958	7,356
Current deferred tax liabilities	(885)	(863)
Non current deferred tax liabilities	<u>(2,746)</u>	<u>(3,329)</u>
Net deferred tax assets	<u>\$ 4,868</u>	<u>\$ 6,560</u>

The net change in the total valuation allowance for the year ended June 30, 2007 was an increase of \$52. This increase was primarily attributable to an additional valuation allowance recorded for net operating loss carryforwards generated in certain foreign jurisdictions. The net change in the total valuation allowance for the year ended June 30, 2006 was an increase of \$697, primarily attributable to an additional valuation allowance recorded for net operating loss carryforward generated in certain foreign jurisdictions. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances primarily for net operating loss carryforwards in certain foreign countries. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets are not expected to be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which net operating loss carryforwards are utilizable and temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the net deferred tax assets recognized at June 30, 2007, the Company will need to generate future taxable income of approximately \$11,100.

Based upon the level of historical taxable income and projections for taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. There can be no assurance, however, that the Company will generate any earnings or any specific level of continuing earnings in the future. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Deferred taxes have not been provided on undistributed earnings of foreign subsidiaries amounting to approximately \$61,400 at June 30, 2007 since substantially all of these earnings are expected to be permanently reinvested in foreign operations. A deferred tax liability will be recognized when the Company expects that it will recover these undistributed earnings in a taxable manner, such as through the receipt of dividends or sale of the investments. Determination of the amount of unrecognized deferred U.S. income tax liabilities is not practical to calculate because of the complexity of this hypothetical calculation. In addition, unrecognized foreign tax credit carryforwards would be available to reduce a portion of such U.S. tax liability.

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.

Tax reform has taken place in Germany whereby an income tax law was passed in July 2007, awaiting approval into the Federal Gazette. The enacted tax rate in Germany will potentially change from 40% to 30%. As a result, the deferred tax balance could decrease by \$1,600 in 2008.



**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**

*(in thousands, except per-share amounts)*

A reconciliation of the statutory federal income tax rate and the effective tax rate for continuing operations for the fiscal years ended June 30, 2007, 2006 and 2005 follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal statutory tax rate	34.0%	34.0%	34.0%
State and local taxes, net of federal income tax benefit	1.1	1.0	(0.5)
Increase (reduction) in valuation allowance	0.4	5.3	(9.9)
Foreign tax rate differential	(2.1)	(9.1)	(5.6)
Other	<u>0.4</u>	<u>(1.1)</u>	<u>(1.1)</u>
Effective tax rate	<u>33.8%</u>	<u>30.1%</u>	<u>16.9%</u>

At June 30, 2007, the Company had foreign net operating loss carryforwards of approximately \$16,600 which are available to offset future foreign taxable income and which have no expiration date.

**(13) Supplemental Cash Flow Information**

Cash paid for interest and income taxes during fiscal 2007, 2006 and 2005 was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest	\$ 167	\$ 129	\$ 151
Income taxes, net of refunds	\$3,822	\$ 797	\$ 195

**(14) Retirement Plans**

**Defined Contribution Plans**

The Company has defined contribution retirement plans in which certain employees are eligible to participate, including deferred compensation plans (see below). The Company's annual contribution per employee, which is at management's discretion, is based on a percentage of the employee's compensation. The Company's provisions for contributions amounted to \$1,281, \$1,148 and \$1,161 in fiscal 2007, 2006 and 2005, respectively.

**Defined Benefit Plans**

The Company sponsors certain defined benefit pension plans covering certain employees of its German subsidiaries who meet the plan's eligibility requirements. 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. The Company adopted the recognition and disclosure provisions of this statement for the year ended June 30, 2007. The incremental effect of applying SFAS No. 158 on individual line items in the consolidated balance sheet at June 30, 2007 is as follows:

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

	Prior to SFAS No. 158 adoption	SFAS No. 158 adoption adjustments	After SFAS No. 158 adoption
Accrued pension liability	874	(63)	811
Deferred income tax liability	2,721	25	2,746
Total liabilities	63,689	(38)	63,651
Accumulated other comprehensive income	5,953	38	5,991
Total shareholders' equity	124,789	38	124,827

The accrued pension liability as of June 30, 2007 was \$811. The accrued pension liability recorded as of June 30, 2006 amounted to \$755. Net periodic pension costs, which consists principally of interest cost and service cost was \$73 in fiscal 2007, \$87 in fiscal 2006 and \$84 in fiscal 2005. The Company's plans are funded in conformity with the funding requirements of the applicable government regulations. An assumed weighted average discount rate of 5.1%, 4.2% and 4.6% and a compensation increase rate of 3.2%, 3.3% and 3.0% were used in determining the actuarial present value of benefit obligations as of June 30, 2007, 2006 and 2005, respectively.

#### **Deferred Compensation Plans**

To comply with the requirements of the American Jobs Creation Act of 2004, as of December 2004, the Company froze its non-qualified Supplemental Executive Retirement Plan (the "Frozen Plan") and has not allowed any further deferrals or contributions to the Frozen Plan after December 31, 2004. All of the earned benefits of the participants in the Frozen Plan as of December 31, 2004, will be preserved under the existing plan provisions.

On March 14, 2005, the Company's Board of Directors adopted the Aceto Corporation Supplemental Executive Deferred Compensation Plan (the "Plan"). The Plan is a non-qualified deferred compensation plan intended to provide certain qualified executives with supplemental benefits beyond the Company's 401(k) plan, as well as to permit additional deferrals of a portion of their compensation. The Plan is intended to comply with the provisions of section 409A of the Internal Revenue Code of 1986, as amended, and is designed to provide comparable benefits to those under the Frozen Plan. Substantially all compensation deferred under the Plan, as well as Company contributions, is held by the Company in a grantor trust, which is considered an asset of the Company. The assets held by the grantor trust are in life insurance policies.

As of June 30, 2007 and 2006, the Company recorded a liability under the Plans of \$3,523 and \$2,937, respectively, (included in long-term liabilities) and an asset (included in other assets) of \$3,008 and \$2,556, respectively, primarily representing the cash surrender value of policies owned by the Company.

#### **(15) Financial Instruments**

##### **Derivative Financial Instruments**

At June 30, 2007 and 2006 the Company had future foreign currency contracts that have a notional amount of \$13,793 and \$12,389, respectively. Unrealized (losses) gains on hedging activities at the end of fiscal 2007 and 2006 amounted to (\$20) and \$171, respectively and are included in the consolidated statements of income. The contracts have varying maturities of less than one year.

The Company is exposed to credit losses in the event of non-performance by the financial institutions, who are the counter parties, on its future foreign currency contracts. The Company anticipates, however, that the financial institutions will be able to fully satisfy their obligations under the contracts. The Company does not obtain collateral to support financial instruments, but monitors the credit standing of the financial institutions.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

In addition, the Company enters into cross currency interest rate swaps to reduce foreign currency exposure on inter-company transactions. In June 2004, a foreign subsidiary of the Company entered into a one-year cross currency interest rate swap transaction, which expired in June 2005 when the underlying inter-company loan was repaid, and in May 2003 the foreign subsidiary entered into a five-year cross currency interest rate swap transaction, both for the purpose of hedging fixed-interest-rate, foreign-currency-denominated cash flows under inter-company loans. Under the terms of these derivative financial instruments, U.S. dollar fixed principal and interest payments to be received under inter-company loans will be swapped for EURO denominated fixed principal and interest payments. The change in fair value of the swaps from the date of purchase to June 30, 2007, was \$(75). The gains or losses on the inter-company loans due to changes in foreign currency rates will be offset by the gains or losses on the swap in the statements of income. Since the Company's interest rate swaps qualify as hedging activities, the change in their fair value, amounting to \$161, \$42 and \$49 in 2007, 2006 and 2005, respectively, is recorded in accumulated other comprehensive income.

**Off-Balance Sheet Risk**

Commercial letters of credit are issued by the Company during the ordinary course of business through major banks as requested by certain suppliers. The Company had open letters of credit of approximately \$702 and \$1,349 as of June 30, 2007 and 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 counter parties to these agreements.

**Fair Value of Financial Instruments**

The carrying values of all financial instruments classified as a current asset or current liability are deemed to approximate fair value because of the short maturity of these instruments. The difference between the fair value of long-term notes receivable and their carrying value at both June 30, 2007 and 2006 was not material. The fair value of the Company's notes receivable was based upon current rates offered for similar financial instruments to the Company.

**Business and Credit Concentration**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables. The Company's customers are dispersed across many industries and are located throughout the United States as well as in Mexico, Brazil, Malaysia, France, Canada, Germany, Australia, the United Kingdom, the Netherlands and other countries. The Company estimates an allowance for doubtful accounts based upon the credit worthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors could affect the Company's estimate of this allowance. The Company as a policy does not require collateral from its customers. At June 30, 2007 and 2006, no single customer accounted for as much as 10% of net trade accounts receivable.

No single product or customer accounted for as much as 10% of net sales in fiscal 2007, 2006 or 2005. Two suppliers accounted for 13% and 12% of purchases in fiscal 2005.

During the fiscal years ended June 30, 2007, 2006 and 2005, approximately 65%, 67% and 68%, respectively, of the Company's purchases came from Asia and approximately 21%, 21% and 22%, respectively, came from Europe.

The Company maintains operations located outside of the United States. Net assets located in Europe and Asia approximated \$31,559 and \$32,560, respectively at June 30, 2007. Net assets located in Europe and Asia approximated \$23,444 and \$28,165, respectively at June 30, 2006.

One of the Company's crop protection products is subject to certain licensed technology, which expired in August 2007. The Company has commenced a lawsuit against the owner of the patent license bringing claims based on antitrust and breach of contract and related claims. The Company intends to pursue these claims vigorously in order to continue to license the technology and sell the particular crop protection product. For the year end June 30, 2007, 2006 and 2005, net sales from this crop protection product were \$3,244, \$4,832 and \$5,939, respectively.

**(16) Commitments and Contingencies**

As of June 30, 2007, the Company has outstanding purchase obligations totaling \$71,891 with suppliers to the Company's domestic and foreign operations to acquire certain products for resale to third party customers.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

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 May 2007, 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 \$2,100 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 the evidence does not show that the hazardous materials sent by Aceto's subsidiary 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's subsidiary 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's subsidiary sent to the site, most of which were non-hazardous substances and as such, believes that its subsidiary is a very minor 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 received an estimate from an environmental consultant stating that the costs of remediation could be between \$6,136 and \$7,611. As of June 30, 2007 a liability of \$6,136 is included in the accompanying consolidated balance sheet. 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.

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.

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 \$625 was paid in December 2005 and the remaining \$750 will be paid in equal installments over the next five years. As of June 30, 2007, the balance is \$450. As a result of the settlement, the company recorded an intangible asset of \$838 for the patent license, which will be amortized over its remaining life of 11 years, and a charge of \$537, included in SG&A expense, for the fiscal year ended June 30, 2006.

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

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**

*(in thousands, except per-share amounts)*

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.

The Company leases office facilities in the United States, the Netherlands, Germany, France, China and Singapore expiring at various dates between December 2007 and April 2011. In addition, a domestic subsidiary leases a manufacturing facility under an operating lease expiring December 2009.

At June 30, 2007, the future minimum lease payments for each of the five succeeding years and in the aggregate are as follows:

Fiscal year	Amount
2008	\$1,543
2009	1,389
2010	1,155
2011	835
2012	78
Thereafter	<u>74</u>
	<u>\$5,074</u>

Total rental expense amounted to \$1,672, \$1,651 and \$1,760 for fiscal 2007, 2006 and 2005, respectively.

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. The aggregate future 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.

#### **(17) Related Party Transactions**

Certain directors of the Company are affiliated with law firms that serve as legal counsel to the Company on various corporate matters. During fiscal 2007, 2006 and 2005, the Company incurred legal fees of \$329, \$315 and \$215, respectively, for services rendered to the Company by those law firms.

In November 2003, the Company formed a joint venture with Nufarm Americas, Inc. (Nufarm), a subsidiary of Australia-based Nufarm Limited. Each company owns 50% of the joint venture, named S.R.F.A., LLC. In June 2004, Nufarm and the Company each loaned \$1,000 to S.R.F.A., with those loans being evidenced by demand notes that bear interest at 3.0% per annum. During fiscal 2005, S.R.F.A. repaid \$500 of principal to each of Nufarm and the Company. The amounts due Nufarm at June 30, 2007 and 2006 are included as a note payable in the accompanying consolidated balance sheets.

#### **(18) Other Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board's ("FASB") EITF issued EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." The Task Force determined that the presentation of certain taxes on either a gross basis (included in revenues and expenses) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. An entity is not required to re-evaluate its existing policies related to taxes assessed by a governmental authority. However, an entity is required to disclose the amounts of such taxes reported on a gross basis. The Company has adopted EITF 06-3 and reports these taxes on a net basis.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

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 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.

#### **(19) 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 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. 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.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

	<u>Health Sciences</u>	<u>Chemicals &amp; Colorants</u>	<u>Crop Protection</u>	<u>Institutional Sanitary Supplies</u>	<u>Consolidated Totals</u>
<u>2007</u>					
Net sales	\$170,691	\$123,299	\$ 19,483	-	\$313,473
Net gross profit	33,007	16,556	4,930	-	54,493
<u>2006</u>					
Net sales	\$166,725	\$110,869	\$ 19,734	-	\$297,328
Gross profit	32,313	17,144	4,760	-	54,217
Unallocated cost of sales (1)					<u>(3,259)</u>
Net gross profit					<u>\$ 50,958</u>
<u>2005</u>					
Net sales	\$184,577	\$104,777	\$ 20,031	\$ 4,046	\$313,431
Gross profit	32,886	17,257	6,719	696	57,558
Unallocated cost of sales (1)					<u>(4,407)</u>
Net gross profit					<u>\$ 53,151</u>

(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 year ended June 30, 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 by source country for the years ended June 30, 2007, 2006 and 2005 and long-lived assets by location as of June 30, 2007 and 2006 were as follows:

	<u>Net Sales</u>			<u>Gross Profit</u>			<u>Long-lived assets</u>	
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>
United States	\$ 184,391	\$ 184,395	\$183,447	\$ 29,779	\$ 30,348	\$ 29,179	\$ 5,229	\$ 3,033
Germany	68,484	56,464	63,518	17,371	14,311	13,041	3,826	4,061
Netherlands	8,579	10,095	8,018	1,594	1,791	1,686	73	179
France	16,812	15,543	12,609	1,973	1,808	1,561	68	80
Asia-Pacific	35,207	30,831	45,839	3,776	2,700	7,684	2,847	2,999
Total	<u>\$ 313,473</u>	<u>\$ 297,328</u>	<u>\$313,431</u>	<u>\$ 54,493</u>	<u>\$ 50,958</u>	<u>\$ 53,151</u>	<u>\$12,043</u>	<u>\$10,352</u>

Sales generated from the United States to foreign countries amounted to \$35,540, \$29,152 and \$26,111 for the fiscal years ended June 30, 2007, 2006 and 2005, respectively.

**ACETO CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**  
*(in thousands, except per-share amounts)*

**(20) Unaudited Quarterly Financial Data**

The following is a summary of the unaudited quarterly results of operations for the years ended June 30, 2007 and 2006.

	For the quarter ended			
	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007
<b>Fiscal year ended June 30, 2007</b>				
Net sales	\$74,725	\$75,686	\$75,879	\$87,183
Gross profit	12,561	12,562	12,876	16,494
Net income	2,462	1,744	1,800	4,206
Net income per diluted share	\$ 0.10	\$ 0.07	\$ 0.07	\$ 0.17
	For the quarter ended			
	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006
<b>Fiscal year ended June 30, 2006</b>				
Net sales	\$75,046	\$69,498	\$80,915	\$71,869
Gross profit	12,556	11,500	13,513	13,389
Net income	1,974	1,547	2,751	2,965
Net income per diluted share	\$ 0.08	\$ 0.06	\$ 0.11	\$ 0.12

The net income per common share calculation for each of the quarters is based on the weighted average number of shares outstanding in each period. Therefore, the sum of the quarters in a year does not necessarily equal the year's net income per common share.



## ACETO CORPORATION AND SUBSIDIARIES

## Valuation and Qualifying Accounts

For the years ended June 30, 2007, 2006 and 2005  
(dollars in thousands)

Description	Balance at beginning of year	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of year
Year ended June 30, 2007					
Allowance for doubtful accounts	<u>\$ 416</u>	<u>\$ 132</u>	-	<u>\$ 57(a)</u>	<u>\$ 491</u>
Year ended June 30, 2006					
Allowance for doubtful accounts	<u>\$ 427</u>	<u>\$ 38</u>	-	<u>\$ 49(a)</u>	<u>\$ 416</u>
Year ended June 30, 2005					
Allowance for doubtful accounts	<u>\$ 1,033</u>	<u>\$ 343</u>	-	<u>\$ 949(a)</u>	<u>\$ 427</u>

(a) Specific accounts written off as uncollectible.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACETO CORPORATION

By /s/Leonard S. Schwartz  
Leonard S. Schwartz  
Chairman, President and  
Chief Executive Officer

Date: September 6, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/Leonard S. Schwartz</u> Leonard S. Schwartz	Chairman, President and Chief Executive Officer (Principal Executive Officer)	09-06-07
<u>/s/Douglas Roth</u> Douglas Roth	Secretary/Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	09-06-07
<u>/s/Stanley Fischer</u> Stanley Fischer	Director	09-06-07
<u>/s/Robert Wiesen</u> Robert Wiesen	Director	09-06-07
<u>/s/Ira S. Kallem</u> Ira S. Kallem	Director	09-06-07
<u>/s/Albert L. Eilender</u> Albert L. Eilender	Director	09-06-07
<u>/s/Hans C. Noetzli</u> Hans C. Noetzli	Director	09-06-07
<u>/s/William Britton</u> William Britton	Director	09-06-07

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 4(a)(iii) to Registration Statement No. 2-70623 on Form S-8 (S-8 2-70623)).
3.2	Certificate of Amendment dated November 21, 1985 to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(ii) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1986).
3.3	Amended and restated by-laws of Aceto Corporation, effective as of February 2, 2005 (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K dated February 2, 2005).
10.1	Aceto Corporation 401(k) Retirement Plan, effective August 1, 1997, as amended and restated as of July 1, 2002 (incorporated by reference to Exhibit 10.1 to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2004).
10.2	Supplemental Executive Retirement Plan, as amended and restated, effective June 30, 2004 and frozen as of December 31, 2004 (incorporated by reference to Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2004).
10.3	Aceto Corporation Stock Option Plan (as Amended and Restated effective as of September 19, 1990) (and as further Amended effective June 9, 1992) (incorporated by reference to Exhibit 10(v)(b) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1992).
10.4	1998 Aceto Corporation Omnibus Equity Award Plan (incorporated by reference to Exhibit 10(v) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 1999).
10.5	Aceto Corporation 2002 Stock Option Plan (incorporated by reference to Exhibit 4(i) to Registration Statement No. 333-110653 on Form S-8).
10.6	Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi) to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2000).
10.7	Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi)(b) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
10.8	Lease between CDC Products Corp. and Seaboard Estates for manufacturing and office space at 1801 Falmouth Avenue, New Hyde Park, NY dated October 31, 1999 (incorporated by reference to Exhibit 10(vi)(c) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
10.9	Stock Purchase Agreement among Windham Family Limited Partnership, Peter H. Kliegman, CDC Products Corp. and Aceto Corporation (incorporated by reference to Exhibit 10(vii) to the Company's annual report on Form 10-K for the year ended June 30, 1999).
10.10	Asset Purchase Agreement among Magnum Research Corporation, CDC Products Corp., Roy Gross and Aceto Corporation (incorporated by reference to Exhibit 10 (viii) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
10.11	Asset Purchase Agreement between Schweizerhall, Inc. and Aceto Corporation (incorporated by reference to Exhibit 10(ix) to the Company's annual report on Form 10-K for the year ended June 30, 2000).
10.12	Purchase and Sale Agreement among Schweizerhall Holding AG, Chemische Fabrik Schweizerhall, Schweizerhall, Inc., Aceto Corporation and Aceto Holding B.V., I.O. (incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K dated April 4, 2001).

- 10.13 Loan Guarantee between Aceto Corporation and subsidiaries and Deutsche Bank AG dated March 22, 2001 (incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the year ended June 30, 2001).
- 10.14 Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated May 10, 2002 (incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the year ended June 30, 2002).
- 10.15 Amendment and Waiver to Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated June 29, 2004 (incorporated by reference to Exhibit 10.15 to the Company's annual report on Form 10-K for the year ended June 30, 2004).
- 10.16 Waiver to Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated August 31, 2004 (incorporated by reference to Exhibit 10.16 to the Company's annual report on Form 10-K for the year ended June 30, 2004).
- 10.17 Share Purchase Agreement dated as of December 12, 2003 between Aceto Holding GmbH and Corange Deutschland Holding GmbH (incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K dated December 31, 2003).
- 10.18 Aceto Corporation Supplemental Executive Deferred Compensation Plan, effective March 14, 2005 (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K dated March 14, 2005).
- 10.19 Form of purchase agreement between Shanghai Zhongjin Real Estate Development Company Limited and Aceto (Hong Kong) Limited dated November 10, 2004 (incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2004).
- 10.20\* Amendment and Waiver to Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated June 26, 2007.
- 21.1\* Subsidiaries of the Company.
- 23.1\* Consent of BDO Seidman, LLP.
- 23.2\* Consent of KPMG LLP.
- 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

\*Filed herewith

## CERTIFICATION

I, Leonard S. Schwartz, certify that:

1. I have reviewed this annual report on Form 10-K of Aceto Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles; and
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: September 6, 2007

/s/ Leonard S. Schwartz

Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

---

**CERTIFICATION**

I, Douglas Roth, certify that:

1. I have reviewed this annual report on Form 10-K of Aceto Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles; and
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: September 6, 2007

/s/ Douglas Roth

\_\_\_\_\_  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

---

## CERTIFICATION

In connection with the Annual Report of Aceto Corporation, a New York corporation (the "Company"), on Form 10-K for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard S. Schwartz, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Leonard S. Schwartz

Chairman, President and Chief Executive Officer  
(Principal Executive Officer)  
September 6, 2007

## CERTIFICATION

In connection with the Annual Report of Aceto Corporation, a New York corporation (the "Company"), on Form 10-K for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas Roth, Chief Financial Officer of the Company, certify, pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas Roth  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
September 6, 2007



**This page left blank intentionally.**

**This page left blank intentionally.**

# Corporate Information

## Directors

**ALBERT L. EILENDER**  
*Owner*  
*WaterWays Advisory Services*

**STANLEY H. FISCHER**  
*Attorney*  
*Fischer and Burstein, P.C.*

**IRA S. KALLEM**  
*Certified Public Accountant*

**HANS C. NOETZLI**  
*Industrial Advisor*

**LEONARD S. SCHWARTZ**  
*Chairman, President and*  
*Chief Executive Officer*  
*Aceto Corporation*

**ROBERT A. WIESEN**  
*Attorney and Partner*  
*Clifton, Budd & DeMaria*

**WILLIAM N. BRITTON**  
*Owner*  
*TD AIM, LLC*

## Officers and Executives

**THEODORE AYVAS**  
*Director of Corporate*  
*Communications and*  
*Investor Relations*

**RAYMOND BARTONE**  
*Vice President*

**ULF BENDER**  
*Managing Director*  
*Pharma Waldhof GmbH\**

**DAVID BERCHER**  
*Assistant Vice President*

**FRANK DEBENEDITTIS**  
*Senior Vice President*

**MICHAEL FEINMAN**  
*President*  
*Aceto Agricultural*  
*Chemicals Corp.\**

**MARLENE FELIX**  
*Assistant Vice President*

**ROY GOODMAN**  
*Group Vice President*

**SEAN ISACSSON**  
*Assistant Vice President*

**EDWARD KELLY**  
*Assistant Vice President and*  
*Controller*

**TERRY KIPPLEY**  
*Assistant Vice President*  
*Aceto Agricultural*  
*Chemicals Corp.\**

**JOHN LAROCCA**  
*Vice President*

**LEONARD LAWTON**  
*Group Vice President*

**JASON LEVI**  
*Assistant Vice President*

**VINCENT MIATA**  
*Senior Vice President*

**SIMONE MILLER**  
*Corporate Director*  
*Environmental and*  
*Regulatory Affairs*

**ALBERT MISEJE**  
*Vice President*

**GARY MO**  
*Managing Director*  
*Aceto (Shanghai) Ltd.\**

**ANDREAS MUENDS**  
*Managing Director*  
*Aceto Holding GmbH*  
*(Germany)\**

**PHILIPPE POTELLE**  
*Managing Director*  
*Aceto France S.A.S.\**

**DAVID RIMMLER**  
*Vice President*

**AMY ROGERS**  
*Assistant Vice President and*  
*Director of Transportation*

**DOUGLAS ROTH**  
*Vice President and*  
*Chief Financial Officer*

**JAMES SAMMER**  
*Assistant Vice President*

**FRANCES SCALLY**  
*Director of Financial*  
*Reporting and Compliance*

**LEONARD S. SCHWARTZ**  
*Chairman, President and*  
*Chief Executive Officer*

**BRIAN SHAPIRO**  
*Vice President*

**TERRY STEINBERG**  
*Vice President*

**PRADEEP THAKUR**  
*General Manager*  
*Aceto Pharma India PVT. LTD.*

**PETER TOMASINO**  
*Assistant Vice President*

**JAN VAN EIS**  
*Managing Director*  
*Aceto Holding B.V.*  
*(The Netherlands)\**

**ROGER WEAVING, JR.**  
*Vice President*

**KEITH WILKINSON**  
*Vice President*

**JASON YU**  
*Managing Director*  
*Aceto Pte Ltd. (Singapore)\**

\* A wholly owned subsidiary

## Shareholder Information

### Corporate Headquarters

Aceto Corporation  
One Hollow Lane  
Lake Success, NY 11042  
(516) 627-6000  
www.aceto.com

### Investor Relations

Theodore Ayvas  
*Director of Corporate*  
*Communications and*  
*Investor Relations*  
Aceto Corporation  
One Hollow Lane  
Lake Success, NY 11042  
(516) 627-6000  
(516) 627-6093 (fax)

### Transfer Agent & Registrar

The Bank of New York  
Shareholder Relations Dept.  
PO Box 11258  
Church Street Station  
New York, NY 10286  
(800) 524-4458  
shareowner-svcs@bankofny.com

### Common Stock

NASDAQ Symbol: ACET

### Auditors

BDO Seidman, LLP  
401 Broadhollow Road  
Melville, NY 11747



Aceto Corporate Office  
One Hollow Lane  
Lake Success, New York 11042  
(516) 627-6000  
[www.aceto.com](http://www.aceto.com)

*END*