ACETO CORP
Form 10-Q
November 09, 2006

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006
Commission file number 000-04217

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

NEW YORK	11-1720520
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

ONE HOLLOW LANE, LAKE SUCCESS, NY 11042
(Address of principal executive offices

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

WWW.ACETO.COM
(Registrant's website address)

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

Yes [X] No [ ]

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 Registrant has 24,286,521 shares of common stock outstanding as of November

2, 2006.

ACETO CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2006

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

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ASSETS	
Current assets:	
Cash in banks	$ 36,2
Investments	5,3
Trade receivables, less allowance for doubtful accounts (September, $376, June $416)	53,4
Other receivables	1,9
Inventory	45,5
Prepaid expenses and other current assets	1,3
Deferred income tax benefit, net	3,4
Total current assets	147,3
Long-term notes receivable	5
Property and equipment, net	4,7
Property held for sale	4,5
Goodwill	1,7
Intangible assets, net	3,7
Deferred income tax benefit, net	6,4
Other assets	3,0
TOTAL ASSETS	$ 172,1
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 24,5
Note payable - related party	5
Accrued expenses	13,1
Deferred income tax liability	8
Total current liabilities	39,0
Long-term liabilities	6,3
Environmental remediation liability	5,2
Deferred income tax liability	3,1
Minority interest	2
Total liabilities	54,0
Commitments and contingencies (Note 12)	
Shareholders' equity:	
Common stock, $.01 par value, 40,000 shares authorized; 25,644 shares issued; 24,287 and 24,278 shares outstanding at September 30, 2006 and June 30, 2006, respectively	2
Capital in excess of par value	56,7
Retained earnings	70,9
Treasury stock, at cost, 1,357 and 1,366 shares at September 30, 2006 and June 30, 2006, respectively	(13,1
Accumulated other comprehensive income	3,3
Total shareholders' equity	118,1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 172,1

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

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

	Three Months Ended September 30, 2006	2005
Net sales	$ 74,725	$ 74,993
Cost of sales	61,834	62,490
Gross profit	12,891	12,503
Selling, general and administrative expenses	9,404	10,362
Operating income	3,487	2,141
Other income (expense):		
Interest expense	(13)	(24)
Interest and other income, net	201	783
	188	759
Income from continuing operations before income taxes	3,675	2,900
Provision for income taxes	1,213	899
Income from continuing operations	2,462	2,001
Loss from discontinued operations, net of income taxes (Note 3)	-	(27)
Net income	$ 2,462	$ 1,974
Basic income per common share:		
Income from continuing operations	$ 0.10	$ 0.08
Loss from discontinued operations	$ -	$ -
Net income	$ 0.10	$ 0.08
Diluted income per common share:		
Income from continuing operations	$ 0.10	$ 0.08
Loss from discontinued operations	$ -	$ -
Net income	$ 0.10	$ 0.08
Weighted average shares outstanding:		
Basic	24,282	24,287
Diluted	24,581	24,634

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

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Operating activities:		
Net income	$ 2,462	$ 1,974
Loss from discontinued operations	-	27
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	381	344
Provision for doubtful accounts	35	-
Non-cash stock compensation	114	46
Deferred income taxes	662	984
Gain on sale of CDC product lines	-	(66)
Changes in assets and liabilities:		
Investments - trading securities	(5)	(38)
Trade accounts receivable	(3,016)	(1,263)
Other receivables	(707)	98
Inventory	1,850	831
Prepaid expenses and other current assets	(315)	(756)
Other assets	(301)	(152)
Accounts payable	582	(115)
Accrued environmental remediation	-	(43)
Other accrued expenses and long-term liabilities	2,839	687
Net cash provided by operating activities	4,581	2,558
Investing activities:		
Payments received on notes receivable	8	13
Purchases of property and equipment	(149)	(136)
Proceeds from the sale of certain CDC product lines	-	75
Purchases of investments	(2,001)	-
Purchase of intangible asset	(42)	(25)
Net cash used in investing activities	(2,184)	(73)
Financing activities:		
Proceeds from exercise of stock options	13	19
Excess tax benefit on exercise of stock options	4	7
Borrowings (payments) of short-term bank loans	-	(126)
Net cash provided by (used in) financing activities	17	(100)
Effect of exchange rate changes on cash	115	(23)

Net increase in cash	2,529	2,362
Cash at beginning of period	33,732	19,950
Cash at end of period	$ 36,261	$ 22,312

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

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

(1) BASIS OF PRESENTATION

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

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

These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. Accordingly, these statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Form 10-K for the year ended June 30, 2006.

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

(2) STOCK-BASED COMPENSATION

Prior to July 1, 2005, the Company accounted for stock-based employee compensation under the intrinsic value method as outlined in the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations while disclosing pro-forma net income and net income per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under the intrinsic value method, no compensation expense was recognized if the exercise price of the Company's employee stock options equaled or exceeded the market price of the underlying stock on the date of grant. Since the Company had issued all stock option grants with exercise prices equal to, or greater than, the market value of the common stock on the date of grant, through June 30, 2005 no compensation cost was recognized in the consolidated statements of income.

Effective July 1, 2005, the Company adopted SFAS No. 123(R), "Share-based Payment." SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such costs be measured at the fair value of the award. This statement was adopted using the modified prospective method, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. 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.

(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 subsidiaries forming part of the former Institutional Sanitary Supplies 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 three months ended September 30, 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. As a result of management's decision to retain the Anti-Clog product, CDC's

operating results are included in continuing operations in the consolidated statements of income and are included within the Chemicals & Colorants segment.

On September 6, 2005, the Company completed the sale of certain assets of Magnum Research Corp. for $81, of which $45 was received as of September 30, 2005, the remaining subsidiary forming part of the former Institutional Sanitary Supplies segment, the operating results of which are included in discontinued operations in the consolidated statements of income.

Net sales from discontinued operations for the three months ended September 30, 2005 were $154. The net loss from discontinued operations for the three months ended September 30, 2005 of $27 includes a loss on the sale of assets of Magnum Research Corp of $22, net of income taxes.

(4) INVESTMENTS

A summary of short-term investments were as follows:

	September 30, 2006		June 30, 2006	
	Fair Value	Cose Basis	Fair Value	Cost Basis
TRADING SECURITIES				

Corporate equity securities	$ 702	$ 152	$ 697	$ 152
AVAILABLE FOR SALE SECURITIES				
Corporate bonds	1,179	$1,205	1,167	$1,210
Government and agency securities	3,466	$3,502	1,445	$1,501
	$5,347		$3,309	

The gains on trading securities were $5 and $38 for the three months ended September 30, 2006 and 2005, respectively.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $1,765 and $1,755 as of September 30, 2006 and June 30, 2006, relates to the Health Sciences Segment.

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

	Gross Carrying Value	Accumulated Amortization	Net Book Value
September 30, 2006			
Customer relationships	$2,785	$1,094	$1,691
Patent license	838	76	762
EPA registrations	307	3	304
Non-compete agreements	233	128	105
	$4,163	$1,301	$2,862
June 30, 2006			
Customer relationships	$2,755	$ 984	$1,771
Customer lists	600	600	-
Patent license	838	57	781
EPA registrations	265	3	262
Non-compete agreements	230	115	115
	$4,688	$1,759	$2,929

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

Amortization expense for intangible assets subject to amortization amounted to $142 and $141 for the three months ended September 30, 2006 and 2005,

respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the succeeding years ended September 30 are as follows: 2007: $529; 2008: $529; 2009: $501; 2010: $485; 2011: $287; 2012 and thereafter: $531

As of September 30, 2006 and June 30, 2006, the Company also had $869 and $860, respectively, of intangible assets pertaining to trademarks which are not subject to amortization.

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

(6) ACCRUED EXPENSES

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

	September 30, 2006	June 30, 2006
Accrued compensation	$ 2,301	$ 2,691
Accrued environmental remediation costs	200	200
Accrued income taxes payable	2,308	2,019
Other accrued expenses	8,389	5,702
	$13,198	$10,612

(7) 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 299 and 347 shares for the three months ended September 30, 2006, and 2005, respectively. There were 1,105 and 1,646 stock options outstanding as of September 30, 2006, and 2005, respectively, that were not included in the calculation of diluted income per common share for the three months ended September 30, 2006, and 2005, respectively because their effect would have been anti-dilutive.

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

(8) COMPREHENSIVE INCOME

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

	Three months ended September 30,	
	2006	2005

Comprehensive income:		
Net income	2,462	1,974
Foreign currency translation Adjustment	365	183
Unrealized gain (loss) on available for sale securities	34	(42)
Change in fair value of cross currency interest rate swaps	90	(91)
Total	$ 2,951	$ 2,024

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

(9) DEFERRED INCOME TAXES

The decrease in the deferred income tax assets of $662 and $984 for the quarter ended September 30, 2006 and 2005, respectively, related to the reduction of taxes payable due to the utilization of foreign net operating loss carryforwards.

(10) SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes for the three months ended September 30, 2006 and 2005 was as follows:

	2006	2005
Interest	$ 5	$ 9
Income taxes, net of refunds	$ 217	$ 279

(11) RELATED PARTY TRANSACTIONS

Certain directors of the Company are affiliated with law firms which serve as counsel to the Company on various corporate matters. During the three months ended September 30, 2006 and 2005, the Company incurred legal fees of $118 and $114, respectively, for services rendered to the Company by these law firms.

(12) COMMITMENTS AND CONTINGENCIES

As of September 30, 2006, the Company had outstanding purchase obligations totaling $52,122 to acquire certain products for resale to third party customers.

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

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

The Company has environmental remediation obligations in connection with Arsynco, Inc. ("Arsynco"), a subsidiary formerly involved in manufacturing chemical, located in Carlstadt, New Jersey, which was closed in 1993 and is currently held for sale. During fiscal 2006, based on continued monitoring of the contamination at the site and the current proposed plan of remediation, the Company received an estimate from an environmental consultant stating that the costs of remediation could be between $5,400 and $6,900. As of both September 30, 2006 and June 30, 2006 a liability $5,400 is included in the accompanying consolidated balance sheets. In accordance with Emerging Issues Task Force (EITF) Issue 90-8, "Capitalization of Costs to Treat Environmental Contamination" management believes that the majority of costs incurred to remediate the site will be capitalized in preparing the property which is currently held for sale. An appraisal of the fair value of the property by a third-party appraiser supports this assumption. However, these matters, if resolved in a manner different from those assumed in current estimates, could have a material adverse effect on the Company's financial condition, operating results and cash flows when resolved in a future reporting period.

In March 2006, Arsynco received notice from the Environmental Protection Agency (EPA) of its status as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for a site described as the Berry's Creek Study Area. Arsynco is one of over 150 PRP's which have potential liability for the required investigation and remediation of the site. The estimate of the potential liability is not quantifiable for a number of reasons, including the difficulty in determining the extent of contamination and the length of time remediation may require. In addition, any estimate of liability must also consider the number of other PRP's and their financial strength. Since an amount of the liability can not be reasonably estimated at this time, no accrual is recorded for these potential future costs. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not known. However, management believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

One of the Company's subsidiaries was a defendant in a legal action alleging patent infringement. The patent in question covered a particular method of applying one of the products in the Company's Agrochemicals segment. In September 2005, shortly before a trial was expected to begin, the parties agreed to a settlement. Under the terms of the settlement agreement, the Company was obligated to pay $1,375, of which $775 was paid as of September 30, 2006 and the remaining $600 will be paid in equal installments over the next four years. As a result of the settlement, the company recorded an intangible asset of $838 for the patent license, which is being amortized over its remaining life, and a charge of $537, included in SG&A expense, for the three months ended September 30, 2005.

A subsidiary of the Company markets certain agricultural chemicals which are subject to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). FIFRA requires that test data be provided to the Environmental Protection Agency (EPA) to register, obtain and maintain approved labels for pesticide products. The EPA requires that follow-on registrants of these products compensate the initial registrant for the cost of producing the necessary test data on a basis prescribed in the FIFRA regulations. Follow-on registrants do not themselves generate or contract for the data. However, when FIFRA requirements mandate that new test data be generated to enable all registrants to continue marketing a pesticide product, often both the initial and follow-on registrants establish a task force to jointly undertake the testing effort. The Company is presently a member of two such task force groups and historically, our payments have been in

the range of $250 - $500 per year. The Company may be required to make additional payments in the future.

In 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.

Commercial letters of credit are issued by the Company in the ordinary course of business through major domestic banks as requested by certain suppliers. The Company had open letters of credit of approximately $1,635 and

$1,349 as of September 30, 2006 and June 30, 2006, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to non-performance by the counterparties to these agreements.

(13) RECENT ACCOUNTING PRONOUNCEMENTS

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

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after

November 15, 2007. Management is currently assessing the impact of SFAS No. 157 on the consolidated financial position and results of operations.

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

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

(14) SEGMENT INFORMATION

The Company's three reportable segments, organized by product, are as follows:

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

- Chemicals & Colorants - products include 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 used in the color-producing industries like textiles, inks, paper, and coatings; intermediates used in the production of agrochemicals.

- Agrochemicals - crop protection products including herbicides, fungicides and insecticides, as well as a sprout inhibitor for potatoes.

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 subsidiaries forming the Institutional Sanitary Supplies 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 subsidiary forming part of the former Institutional Sanitary Supplies segment, the operating results of which are included in discontinued operations in the consolidated statements of income.

The Company does not allocate assets by segment. 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.

Three Months Ended September 30, 2006 and 2005:

	Health Sciences	Chemicals & Colorants	Agrochemicals	Consolid Total
2006				
Net sales	$ 42,504	$ 28,842	$ 3,379	$ 74,72
Gross profit	8,266	4,126	787	13,17
Unallocated cost of sales (1)				(28
Net gross profit				$ 12,89
2005				
Net sales	$ 44,664	$ 26,160	$ 4,169	$ 74,99
Gross profit	8,833	4,089	656	13,57
Unallocated cost of sales (1)				(1,07
Net gross profit				$ 12,50

(1) Represents certain freight and storage costs not allocated to a particular segment. As a result of certain system improvements, certain freight and storage costs which previously were not able to be identified to a particular segment in the prior period, have now been included within the segment. Therefore, the unallocated portion of

certain freight and storage costs was lower in the current period. Total Company gross profit and margin were not affected by this allocation.

Net sales and gross profit by location for the three months ended September 30, 2006 and 2005 and long-lived assets by location as of September 30, 2006 and June 30, 2006 were as follows:

	Net Sales		Gross Profit		Long-Lived Assets	
	Three months ended September 30,		Three months ended September 30,		As of	
	2006	2005	2006	2005	September 30, 2006	June 30 2006
United States	$42,702	$46,016	$ 6,766	$ 6,681	$ 3,016	$ 3,033
Germany	15,788	14,862	4,295	4,037	3,955	4,061
Netherlands	2,326	3,165	429	461	173	179
France	5,007	3,102	543	401	76	80
Asia-Pacific	8,902	7,848	858	923	2,994	2,999
Total	$74,725	$74,993	$12,891	$12,503	$10,214	$10,352

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Aceto Corporation

We have reviewed the consolidated balance sheet of Aceto Corporation and subsidiaries as of September 30, 2006 and the related consolidated statement of income for the three-month period ended September 30, 2006, and the related consolidated statement of cash flows for the three-month period ended September 30, 2006 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended September 30, 2006. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Aceto Corporation and subsidiaries as of June 30, 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated September 6, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2006, is fairly stated, in all

material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BDO SEIDMAN LLP

Melville, New York
November 8, 2006

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This Quarterly Report on Form 10-Q and the information incorporated by reference includes "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, unforeseen environmental liabilities, uncertain military, political and economic conditions in the world, the mix of products sold and the profit margins thereon, order cancellation or a reduction in orders from customers, the nature and pricing of competing products, the availability and pricing of key raw materials, dependence on key members of management, risks of entering into new European markets, continued successful integration of acquisitions, and economic and political conditions in the United States and abroad. We undertake no obligation to update any such forward-looking statements.

NOTE REGARDING DOLLAR AMOUNTS

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

EXECUTIVE SUMMARY

We are reporting net sales of $74,725 for the three months ended September 30, 2006, which represents less than a 1% decrease from the $74,993 reported in the comparable prior period. Gross profit for the three months ended September 30, 2006 was $12,891 and our gross margin was 17.3% as compared to gross profit of $12,503 and gross margin of 16.7% in the comparable prior period. Our selling, general and administrative costs for the three months ended September 30, 2006 decreased to $9,404, a decrease of 9.2% over the $10,362 we reported in the prior period. Our net income increased to $2,462, or $0.10 per diluted share, an increase of 24.7% compared to the prior period.

Our financial position as of September 30, 2006, remains strong, as we had cash of $36,261, working capital of $108,297, no long-term debt and shareholders' equity of $118,161.

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

The Health Sciences segment is our largest segment both in sales and gross profits. This segment is comprised of APIs, pharmaceutical intermediates, diagnostic chemicals, biopharmaceuticals and nutritional supplements. We typically partner with both customers and suppliers years in advance of a drug coming off patent to provide the generic equivalent.

We have a pipeline of new generic products 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, as new members join the European Union, primarily from Eastern Europe, they become subject to the same regulatory standards as their Western European counterparts. Given our regulatory expertise, we believe that this represents an opportunity for us, and we believe we are well positioned to take advantage of that opportunity.

The Chemicals & Colorants segment supplies chemicals used in the color-producing industries such as the textiles, ink, paper and coatings industries, as well as chemicals used in plastic, resins, adhesives, coatings, food, flavor additives, air-conditioning systems, and the production of agrochemicals. Our customers for these products are

predominantly located in the United States, and we purchase the products primarily from manufacturers located in China and Western Europe.

The Agrochemicals segment sells crop protection products including herbicides, pesticides, and other agricultural chemicals to customers primarily located in the United States and Western Europe. Our joint venture with Nufarm, which markets Butoxone (R), is expected to increase our market share of the peanut, soybean and alfalfa herbicide markets.

Our main business strengths are sourcing, regulatory support, quality control, marketing and distribution. We are currently the largest buyer of pharmaceutical and specialty chemicals for export from China, purchasing from over 500 different factories.

In this Management's Discussion and Analysis section, we explain our general financial condition and results of operations, including the following:

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

As you read this Management's Discussion and Analysis section, refer to the accompanying consolidated statements of income, which present the results of our operations for the three months ended September 30, 2006 and 2005. We analyze and explain the differences between periods in the specific line items of the consolidated statements of income.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

As disclosed in our Form 10-K for the year ended June 30, 2006, the discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. In preparing these financial statements, we were required to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We regularly evaluate our estimates including those related to allowances for bad debts, inventories, goodwill and intangible assets, environmental and other contingencies, and income taxes. We base our estimates on various factors, including historical experience, advice from outside subject-matter experts, and various assumptions that we believe to be reasonable under the circumstances, which together form the basis for our making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Since June 30, 2006, there have been no significant changes to the assumptions and estimates related to those critical accounting estimates and policies.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

Net Sales By Segment
Three months ended September 30,

	2006		2005	
Segment	Net Sales	% of Total	Net Sales	% of Total
Health Sciences	$42,504	56.9%	$44,664	59.6%
Chemicals & Colorants	28,842	38.6	26,160	34.8
Agrochemicals	3,379	4.5	4,169	5.6
Net sales	$74,725	100.0%	$74,993	100.0%

Gross Profit By Segment
Three months ended September

	2006		2005	
Segment	Gross Profit	% of Sales	Gross Profit	% of Sales

Health Sciences	$ 8,266	19.4%	$ 8,833	19.8%
Chemicals & Colorants	4,126	14.3	4,089	15.6
Agrochemicals	787	23.3	656	15.7
Segment gross profit	13,179	17.6	13,578	18.1
Freight and storage costs (1)	(288)	(0.3)	(1,075)	(1.4)
Gross Profit	$ 12,891	17.3%	$ 12,503	16.7%

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

NET SALES

Net sales decreased $268, or less than 1%, to $74,725 for the three months ended September 30, 2006, compared with $74,993 for the prior period. We reported a sales decrease in our Health Sciences and Agrochemicals segments which was partially offset by a sales increase in our Chemicals & Colorants segment, as explained below.

HEALTH SCIENCES

Net sales for the Health Sciences segment decreased by $2,160 for the three months ended September 30, 2006, to $42,504, which represents a 4.8% decrease from net sales of $44,664 for the prior period. This decrease is the result of a decrease of $4,742 in the generics product group relating to an expected decrease from one particular product due to its normal selling pattern, which accounted for over 80% of the decrease. This decrease was partially offset by increases in pharmaceutical intermediates sales of $1,007 and the nutritionals product group of $338. In addition, foreign sales increased $1,128 over the same period in the prior year.

CHEMICALS & COLORANTS

Net sales for the Chemicals & Colorants segment were $28,842 for the three months ended September 30, 2006, compared to $26,160 for the prior period. This increase of $2,682, or 10.3%, over the prior period is partially attributable to a steady increase in the number of products being offered by our foreign subsidiaries. Sales of Chemicals & Colorants products by our foreign subsidiaries for the three months ended September 30, 2006, showed an increase of $1,918 over the prior period. Our chemical business is diverse in terms of products, customers and consuming markets. One customer within our color-pigment and pigment-intermediate business, whose contract expired in fiscal 2006, purchased $1,700 during the three months ended September 30, 2005 as compared to zero in the current period. This reduction was more than offset by increased sales of agricultural intermediates, pigment intermediates and other intermediates which together increased $1,591 over the prior period and coatings which increased $2,382.

AGROCHEMICALS

Net sales for the Agrochemical segment decreased to $3,379 for the three months ended September 30, 2006, a decrease of $790, or 18.9%, from net sales of $4,169 for the prior period. The extremely dry weather conditions, particularly in the south, caused a decline in sales. In particular, sales of three products decreased $1,130 over the prior period. This decline was partially offset by a $493 increase in sales of our largest product group.

GROSS PROFIT

Gross profit increased $388 to $12,891 (17.3% of net sales) for the three months ended September 30, 2006, as compared to $12,503 (16.7% of net sales) for the prior period.

HEALTH SCIENCES

Health Sciences' gross profit of $8,266 for the three months ended September 30, 2006, was $567 or 6.4% lower than the prior period. This decrease in gross profit was directly attributed to the expected decrease in sales of one particular product in the generics product group as described above which represented a $301 decline in gross profit. In addition, gross profit from our foreign operations declined $312 as compared to the prior period due to a shift in product mix to lower margin products.

CHEMICALS & COLORANTS

Gross profit for the three months ended September 30, 2006, increased by $37, or less than 1%, over the prior period. An increase in gross profit from categories such as coatings and our foreign operations were the primary reasons for this improvement. The gross margin was 14.3% for the three months ended September 30, 2006 compared to 15.6% for the prior period. The decrease in the gross margin was partly attributable to the increased allocation of certain freight and storage costs compared to the prior period as further described below.

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AGROCHEMICALS

Gross profit for the Agrochemicals segment increased to $787 for the three months ended September 30, 2006, versus $656 for the prior period, an increase of $131 or 20.0%. Gross margin for the quarter was 23.3% compared to the prior period gross margin of 15.7%. The increase is primarily attributable to the increased sales of our largest selling product which accounted for an increase of $130 in gross profit, which includes our product expansion into Eastern Europe.

UNALLOCATED FREIGHT AND STORAGE COSTS

Unallocated cost of sales decreased $787, to $288 for the three months ended September 30, 2006 compared to $1,075 in the prior period, representing a 73.2% decrease. As a result of certain system improvements, certain freight and storage costs which previously were not able to be identified to a particular segment in the prior period, have now been included within the applicable segment. Therefore, the unallocated portion of certain freight and storage costs was lower in the current period. Total company gross profit and margin were not affected by this allocation.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") decreased $958, or 9.2%,

to $9,404 for the three months ended September 30, 2006 compared to $10,362 for the prior period. As a percentage of sales, SG&A decreased to 12.6% for the three months ended September 30, 2006 versus 13.8% for the prior period. The decrease in SG&A relates primarily to a legal settlement charge recorded in the prior period of $537 as well as lower operating expenses of $428 resulting from the sale of one of our subsidiaries in August 2005.

OPERATING INCOME

For the three months ended September 30, 2006, operating income was $3,487 compared to $2,141 in the prior period, an increase of $1,346 or 62.9%. This increase was due to the overall increase in gross profit of $388 and the $958 decrease in SG&A expenses.

INTEREST AND OTHER INCOME (EXPENSE)

Interest and other income was $201 for the three months ended September 30, 2006, which represents a decrease of $582 over the prior period. The decrease is primarily attributable to a decrease of $406 for a government subsidy paid annually for doing business in a free trade zone in Shanghai, China. The lower government subsidy was due to lower taxable income in the jurisdiction as well as a lower subsidy rate.

PROVISION FOR INCOME TAXES

The effective tax rate for the three months ended September 30, 2006 increased to 33.0% from 31.0% for the prior period. The increase in the effective tax rate was primarily due to increased earnings in foreign tax jurisdictions with higher tax rates, primarily Germany, and reduced earnings in foreign tax jurisdictions with lower tax rates, primarily Shanghai.

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 for the three months ended September 30, 2005, which includes a loss on the sale of the business of $22 net of income taxes.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

At September 30, 2006, we had $36,261 in cash, $5,347 in short-term investments and no short-term bank loans. Working capital was $108,297 at September 30, 2006, versus $104,707 at June 30, 2006.

Our cash position at September 30, 2006, increased $2,529 from the amount at June 30, 2006. Operating activities provided cash of $4,581, primarily due net income of $2,462 and changes in assets and liabilities. Investing activities used cash of $2,184, primarily as a result of purchases of investments of $2,001. Financing activities provided cash of $17 primarily as a result of proceeds from the exercise of stock options of $13.

CREDIT FACILITIES

We have available credit facilities with certain foreign financial institutions. These facilities provide us with a line of credit of $18,713, of which $284 in letters of credit was utilized, leaving $18,429 of this facility unused as of September 30, 2006. We are not subject to any financial covenants under these arrangements.

We have a revolving credit agreement with a domestic financial institution that expires June 30, 2007, and provides for available credit of $10,000. At September 30, 2006, we had utilized $1,351 in letters of credit, leaving $8,649 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 September 30, 2006.

WORKING CAPITAL OUTLOOK

Working capital was $108,297 at September 30, 2006, versus $104,707 at June 30, 2006. The increase in working capital was primarily attributable to net income during the quarter. We continually evaluate possible acquisitions of or investments in businesses that are complementary to our own, and such transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, borrowing capacity and access to the equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures and the anticipated continuation of semi-annual cash dividends for the next twelve months. We may obtain additional credit facilities to enhance our liquidity.

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OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS AND CONTINGENCIES

We have no material financial commitments other than those under operating lease agreements, letters of credit and unconditional purchase obligations. We have certain contractual cash obligations and other commercial commitments which will impact our short-term and long-term liquidity. At September 30, 2006, we had no significant obligations for capital expenditures. At September 30, 2006, contractual cash obligations and other commercial commitments were as follows:

	Payments Due and/or Amount of Commitment Expiration Per Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	A 5

Operating leases	$ 5,872	$ 1,533	$ 2,628	$ 1,634	$
Commercial letters of credit	1,635	1,635	-	-	
Standby letters of credit	174	174	-	-	
Unconditional purchase obligations	52,122	52,122	-	-	
Total	$59,803	$55,464	$ 2,628	$ 1,634	$

Other significant commitments and contingencies include the following:

1. Our non-qualified deferred compensation plans are intended to provide certain executives with supplemental retirement benefits beyond our 401(k) plan, as well as to permit additional deferral of a portion of their compensation. All compensation deferred under the plans is held by us in a grantor trust, which is considered our asset. We had a liability under the plan of $3,096 and the assets held by the grantor trust amounted to $2,803 as of September 30, 2006.

2 One of our subsidiaries markets certain agricultural chemicals which are subject to the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"). FIFRA requires that test data be provided to the Environmental Protection Agency ("EPA") to register, obtain and maintain approved labels for pesticide products. The EPA requires that follow-on registrants of these products compensate the initial registrant for the cost of producing the necessary test data on a basis prescribed in the FIFRA regulations. Follow-on registrants do not themselves generate or contract for the data. However, when FIFRA requirements mandate that new test data be generated to enable all registrants to continue marketing a pesticide product, often both the initial and follow-on registrants establish a task force to jointly undertake the testing effort. We are presently a member of two such task force groups and historically, our payments have been in the range of $250 - $500 per year. We may be required to make additional payments in the future.

3. We, 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.

RELATED PARTY TRANSACTIONS

Two of our directors are affiliated with law firms that serve as our legal counsel on various corporate matters. For the three months ended September 30, 2006 and 2005, we incurred legal fees of $118 and $114, respectively, for

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

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109". FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of FIN 48 on our 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. We are currently assessing the impact of SFAS No. 157 on our consolidated financial position and results of operations.

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

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

guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK SENSITIVE INSTRUMENTS

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

INVESTMENT MARKET PRICE RISK

We had short-term investments of $5,347 at September 30, 2006. 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 $535 as of September 30, 2006. 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 September 30, 2006, we had foreign currency contracts outstanding that had a notional amount of $10,923. 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 September 30, 2006, was not material.

In addition, we enter into cross currency interest rate swaps to reduce foreign currency exposure on inter-company transactions. In May 2003 we entered into a five-year cross currency interest rate swap transaction for the purpose of hedging fixed-interest-rate, foreign-currency-denominated cash flows under an inter-company loan. Under the terms of the derivative financial instrument, U.S. dollar fixed principal and interest payments to be received under the inter-company loan will be swapped for Euro denominated fixed principal and interest payments. The change in fair value of the swap from date of purchase to September 30, 2006, was $(146). The gains or losses on the inter-company loan due to changes in foreign currency rates will be offset by the gains or losses on the swap in the accompanying consolidated statements of income. Since our interest rate swap qualifies as a hedging activity, the change in their fair value, amounting to $(90) and $(91) for the three months ended September 30, 2006 and 2005, respectively, is recorded in accumulated other comprehensive income included in the accompanying consolidated balance sheets.

We are subject to risk from changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income. On September 30, 2006, we had translation exposure to various foreign currencies, with the most significant being the Euro and the Chinese Renminbi. The potential

loss as of September 30, 2006, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounted to $8,262. 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 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to 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 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 September 30, 2006 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the first quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROL

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that the benefits of controls must be considered relative to their costs. Because of the inherent limitations in any control system, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed under Part I - "Item 1A. Risk Factors" in our Form 10-K for the year ended June 30, 2006 which could materially adversely affect our business, financial condition, operating results and cash flows. The risks and uncertainties described in our Form 10-K for the year ended June 30, 2006 are not the only ones we face. Additionally, risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition, operating results or cash flows.

ITEM 6. EXHIBITS

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

15.1 Letter of independent registered public accounting firm re: unaudited interim financial information

31.1 Certification by President and CEO Leonard S. Schwartz pursuant to U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by CFO Douglas Roth pursuant to U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by President and CEO Leonard S. Schwartz pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

ACETO CORPORATION

DATE November 9, 2006 BY /s/ Douglas Roth

Douglas Roth, Chief Financial Officer

DATE November 9, 2006 BY /s/ Leonard S. Schwartz

Leonard S. Schwartz, Chairman,
President and Chief Executive Officer

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