

ACETO CORP  
Form 10-Q  
November 08, 2013

---

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, 2013  
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)

4 Tri Harbor Court, Port Washington, NY 11050  
(Address of principal executive offices)

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

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

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: ACETO CORP - Form 10-Q

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

The registrant had 28,135,375 shares of common stock outstanding as of November 1, 2013.

ACETO CORPORATION AND SUBSIDIARIES  
 QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION		3
Item 1.	Financial Statements	3
	Condensed Consolidated Balance Sheets – September 30, 2013 (unaudited) and June 30, 2013	3
	Condensed Consolidated Statements of Income – Three Months Ended September 30, 2013 and 2012 (unaudited)	4
	Condensed Consolidated Statements of Comprehensive Income – Three Months Ended September 30, 2013 and 2012 (unaudited)	5
	Condensed Consolidated Statements of Cash Flows – Three Months Ended September 30, 2013 and 2012 (unaudited)	6
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
	Report of Independent Registered Public Accounting Firm	16
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	24
Item 4.	Controls and Procedures	25
PART II. OTHER INFORMATION		25
Item 1.	Legal Proceedings	25
Item 1A.	Risk Factors	26
Item 2.	Unregistered Sale of Equity Securities and Use of Proceeds	26
Item 3.	Defaults Upon Senior Securities	26
Item 4.	Mine Safety Disclosures	26
Item 5.	Other Information	26
Item 6.	Index to Exhibits	26

Signatures

27

Exhibits

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2013 (unaudited)	June 30, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,058	\$33,231
Investments	2,165	2,144
Trade receivables, less allowance for doubtful accounts (September, \$1,427; June, \$1,294)	93,197	90,108
Other receivables	6,590	5,283
Inventory	87,266	83,849
Prepaid expenses and other current assets	3,885	2,984
Deferred income tax asset, net	726	701
Total current assets	228,887	218,300
Property and equipment, net	11,449	11,410
Property held for sale	4,058	4,058
Goodwill	33,563	33,526
Intangible assets, net	39,426	40,831
Deferred income tax asset, net	8,057	8,055
Other assets	7,822	7,250
<b>TOTAL ASSETS</b>	<b>\$ 333,262</b>	<b>\$323,430</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 7,947	\$11,714
Accounts payable	41,588	39,222
Accrued expenses	40,132	38,971
Total current liabilities	89,667	89,907
Long-term debt	18,306	20,355
Long-term liabilities	12,217	13,413
Environmental remediation liability	4,615	5,109
Deferred income tax liability	19	6
Total liabilities	124,824	128,790
Commitments and contingencies (Note 6)		
Shareholders' equity:		

Edgar Filing: ACETO CORP - Form 10-Q

Common stock, \$.01 par value, 40,000 shares authorized; 28,135 and 27,831 shares issued and outstanding at September 30, 2013 and June 30, 2013, respectively	281	278
Capital in excess of par value	74,911	72,845
Retained earnings	128,263	118,615
Accumulated other comprehensive income	4,983	2,902
Total shareholders' equity	208,438	194,640
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 333,262</b>	<b>\$323,430</b>

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

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

	Three Months Ended September 30,	
	2013	2012
Net sales	\$129,261	\$111,748
Cost of sales	95,527	90,243
Gross profit	33,734	21,505
Selling, general and administrative expenses	15,764	12,987
Research and development expenses	554	905
Operating income	17,416	7,613
Other income (expense):		
Interest expense	(453 )	(546 )
Interest and other income, net	611	555
	158	9
Income before income taxes	17,574	7,622
Income tax provision	6,239	2,802
Net income	\$11,335	\$4,820
Net income per common share	\$0.41	\$0.18
Diluted net income per common share	\$0.40	\$0.18
Weighted average shares outstanding:		
Basic	27,757	26,805
Diluted	28,390	27,229

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

ACETO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended September 30,	
	2013	2012
Net income	\$11,335	\$4,820
Other comprehensive income:		
Foreign currency translation adjustments	2,050	1,042
Change in fair value of interest rate swaps	31	(5 )
Comprehensive income	\$13,416	\$5,857

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



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

	Three Months Ended September 30,	
	2013	2012
Operating activities:		
Net income	\$11,335	\$4,820
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,774	1,725
Provision for doubtful accounts	70	37
Non-cash stock compensation	798	444
Deferred income taxes	6	(64)
Earnings on equity investment in joint venture	(313)	(324)
Changes in assets and liabilities:		
Trade accounts receivable	(2,224)	(1,597)
Other receivables	(1,082)	618
Inventory	(2,356)	(484)
Prepaid expenses and other current assets	(826)	(548)
Other assets	(11)	(37)
Accounts payable	1,992	(4,273)
Accrued expenses and other liabilities	(1,153)	(3,259)
Net cash provided by (used in) operating activities	8,010	(2,942)
Investing activities:		
Purchases of investments	(56)	(32)
Sales of investments	-	1,002
Payments for intangible assets	-	(171)
Purchases of property and equipment, net	(356)	(327)
Net cash (used in) provided by investing activities	(412)	472
Financing activities:		
Payment of cash dividends	(1,665)	(1,477)
Proceeds from exercise of stock options	861	576
Excess tax benefit on stock option exercises and restricted stock	232	158
Borrowings of bank loans	-	4,000
Repayment of bank loans	(5,816)	(1,548)
Net cash (used in) provided by financing activities	(6,388)	1,709
Effect of exchange rate changes on cash	617	242
Net increase (decrease) in cash	1,827	(519)
Cash at beginning of period	33,231	24,862
Cash at end of period	\$35,058	\$24,343

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

6

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

(1) Basis of Presentation

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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; royalty income; partnered products; allowance for doubtful accounts; inventories; goodwill and other indefinite-lived intangible assets; long-lived assets; environmental and other contingencies; income taxes; and stock-based compensation.

These condensed consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with GAAP. 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, 2013.

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

(2) Stock-Based Compensation

At the annual meeting of shareholders of the Company, held on December 6, 2012, the Company’s shareholders approved the amended and restated Aceto Corporation 2010 Equity Participation Plan (2010 Plan). Under the 2010 Plan, grants of stock options, restricted stock, restricted stock units, stock appreciation rights, and stock bonuses (collectively, “Stock Awards”) may be made to employees, non-employee directors and consultants of the Company, including the chief executive officer, chief financial officer and other named executive officers. The maximum number of shares of common stock of the Company that may be issued pursuant to Stock Awards granted under the 2010 Plan will not exceed, in the aggregate, 5,250 shares. In addition, 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 three months ended September 30, 2013, the Company granted 199 shares of restricted common stock to its employees that vest over three years, as well as 32 restricted stock units that have varying vest dates from December 2013 through July 2015. In addition, the Company also issued a target grant of 131 performance-vested restricted stock units, which grant could be as much as 196 if certain performance criteria and market conditions are met. Performance-vested restricted stock units will cliff vest 100% at the end of the third year following grant in

accordance with the performance metrics set forth in the applicable employee performance-vested restricted stock unit grant.

During the year ended June 30, 2013, the Company granted 120 shares of restricted common stock to its employees that vest over three years and 25 shares of restricted common stock to its non-employee directors, which vest over one year. In addition, the Company also issued a target grant of 84 performance-vested restricted stock units, which grant could be as much as 126 if certain performance criteria and market conditions are met. Performance-vested restricted stock units will cliff vest 100% at the end of the third year following grant in accordance with the performance metrics set forth in the applicable employee performance-vested restricted stock unit grant.

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

For the three months ended September 30, 2013 and 2012, the Company recorded stock-based compensation expense of approximately \$716 and \$358 respectively, related to restricted common stock and restricted stock units. As of September 30, 2013, the total unrecognized compensation cost related to restricted stock awards and units is approximately \$6,544. There were no stock options granted in the three months ended September 30, 2013 and 2012. Total compensation expense related to stock options for the three months ended September 30, 2013 and 2012 was \$79 and \$83, respectively. As of September 30, 2013, the total unrecognized compensation cost related to option awards is \$158.

(3) Common Stock

On August 28, 2013, the Company's board of directors declared a regular quarterly dividend of \$0.06 per share which was paid on September 27, 2013 to shareholders of record as of September 16, 2013.

(4) Net Income Per Common Share

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

	Three months ended September 30,	
	2013	2012
Weighted average shares outstanding	27,757	26,805
Dilutive effect of stock options and restricted stock awards and units	633	424
Diluted weighted average shares outstanding	28,390	27,229

There were 0 and 587 common equivalent shares outstanding as of September 30, 2013 and 2012, respectively, that were not included in the calculation of diluted income per common share for the three months ended September 30, 2013 and 2012, respectively, because their effect would have been anti-dilutive.

(5) Debt

Long-term debt

September 30, 2013	June 30, 2013
-----------------------	------------------

Edgar Filing: ACETO CORP - Form 10-Q

Term bank loans	\$ 22,750	\$ 24,500
Revolving bank loans	-	4,000
Mortgage	3,503	3,569
	26,253	32,069
Less current portion	7,947	11,714
	\$ 18,306	\$ 20,355

8

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

### Credit Facilities

On December 31, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") with two U.S. financial institutions. The Credit Agreement terminated the Amended and Restated Credit Agreement, dated April 23, 2010. Aceto may borrow, repay and reborrow during the period ending December 31, 2015, up to but not exceeding at any one time outstanding \$40,000 (the "Revolving Loans"). The Revolving Loans may be (i) Adjusted LIBOR Loans (as defined in the Credit Agreement), (ii) Alternate Base Rate Loans (as defined in the Credit Agreement) or (iii) a combination thereof. As of September 30, 2013, there were no Revolving Loans outstanding. The Credit Agreement also allows for the borrowing of up to \$40,000 (the "Term Loan"). The Company borrowed a Term Loan of \$40,000 on December 31, 2010. The Term Loan interest may be payable as an (i) Adjusted LIBOR Loan, (ii) Alternate Base Rate Loan, or (iii) a combination thereof. As of September 30, 2013, the remaining amount outstanding under the original amortizing Term Loan is \$22,750 and is payable as an Adjusted LIBOR Loan at an interest rate of 2.0% at September 30, 2013. The Term Loan is payable as to principal in twenty (20) consecutive quarterly installments, which commenced on March 31, 2011 and will continue on each June 30, September 30 and December 31st thereafter, each in the amount set forth below opposite the applicable installment, provided that the final payment on the Term Loan Maturity Date (as defined in the Credit Agreement) shall be in an amount equal to the then outstanding unpaid principal amount of the Term Loan:

Installment	Amount
1 through 8	\$ 1,500
9 through 12	\$ 1,750
13 through 16	\$ 2,000
17 through 20	\$ 3,250

As such, the Company has classified \$7,750 of the Term Loan as short-term in the consolidated balance sheet at September 30, 2013. The Credit Agreement also provides that commercial letters of credit shall be issued to provide the primary payment mechanism in connection with the purchase of any materials, goods or services by the Company in the ordinary course of business. The Company had open letters of credit of approximately \$245 and \$78 as of September 30, 2013 and June 30, 2013, 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.

The Credit Agreement provides for a security interest in all personal property of the Company. The Credit Agreement contains several financial covenants including, among other things, maintaining a minimum level of debt service. The Company is also subject to certain restrictive covenants, including, among other things, covenants governing 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 September 30, 2013.

### Mortgage

On June 30, 2011, the Company entered into a mortgage payable for \$3,947 on its new corporate headquarters, in Port Washington, New York. This mortgage payable is secured by the land and building and is being amortized over a period of 20 years. The mortgage payable bears interest at 5.92% as of September 30, 2013 and matures on June 30, 2021.

(6) Commitments, Contingencies and Other Matters

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.



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

On October 29, 2012, a lawsuit was filed in the United Kingdom (in the High Court of Justice, Queens Bench Division, Commercial Court) by United Phosphorous Limited (“UPL”) against Aceto Agricultural Chemicals Corporation (“AACC”), a wholly-owned subsidiary of the Company. In the lawsuit, UPL alleges, among other things, that AACC breached a 1995 agreement regarding European sales of a potato sprout suppression product, by selling the product in Europe. UPL claims damages of approximately £4,500 (approximately US \$7,200) plus an unspecified amount of additional damages. While the impact of the resolution of the matter, including any legal and other associated costs, on the Company’s consolidated results of operations in a particular reporting period is not known at this time, after a detailed review and careful analysis of the allegations, AACC strongly denies the allegations, believes that UPL’s claims are without merit and intends to vigorously defend the lawsuit.

In fiscal years 2011, 2009, 2008 and 2007, the Company received letters from the Pulvair Site Group, a group of potentially responsible parties (PRP Group) who are working with the State of Tennessee (the State) to remediate a contaminated property in Tennessee called the Pulvair site. The PRP Group has alleged that Aceto shipped hazardous substances to the site which were released into the environment. The State had begun administrative proceedings against the members of the PRP Group and Aceto with respect to the cleanup of the Pulvair site and the PRP Group has begun to undertake cleanup. The PRP Group is seeking a settlement of approximately \$1,700 from the Company for its share to remediate the site contamination. Although the Company acknowledges that it shipped materials to the site for formulation over twenty years ago, the Company believes that the evidence does not show that the hazardous materials sent by Aceto to the site have significantly contributed to the contamination of the environment and thus believes that, at most, it is a de minimus contributor to the site contamination. Accordingly, the Company believes that the settlement offer is unreasonable. The impact of the resolution of this matter on the Company’s results of operations in a particular reporting period is not known. However, management believes that the ultimate outcome of this matter will not have a material adverse effect on the Company’s financial condition or liquidity.

The Company has environmental remediation obligations in connection with Arsynco, 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. Based on continued monitoring of the contamination at the site and the approved plan of remediation, the Company received an estimate from an environmental consultant stating that the costs of remediation could be between \$9,000 and \$10,800. Remediation commenced in fiscal 2010, and as of September 30, 2013 and June 30, 2013, a liability of \$6,673 and \$7,166, respectively, is included in the accompanying consolidated balance sheets for this matter. In accordance with GAAP, 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 the assumption that the expected fair value after the remediation is in excess of the amount required to be capitalized. 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, in July 2009, the Company entered into a settlement agreement with BASF Corporation (BASF), the former owners of the Arsynco property. In accordance with the settlement agreement, BASF paid for a portion of the prior remediation costs and going forward, will co-remediate the property with the Company. The contract states that BASF pay \$550 related to past response costs and pay a proportionate share of the future remediation costs. Accordingly, the Company had recorded a gain of \$550 in fiscal 2009. This \$550 gain relates to the partial reimbursement of costs of approximately \$1,200 that the Company

had previously expensed. The Company also recorded an additional receivable from BASF, with an offset against property held for sale, representing its estimated portion of the future remediation costs. The balance of this receivable for future remediation costs as of September 30, 2013 and June 30, 2013 is \$3,003 and \$3,225, respectively, which is included in the accompanying consolidated balance sheets.

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

In March 2006, Arsynco received notice from the EPA of its status as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for a site described as the Berry's Creek Study Area. Arsynco is one of over 150 PRPs which have potential liability for the required investigation and remediation of the site. The estimate of the potential liability is not quantifiable for a number of reasons, including the difficulty in determining the extent of contamination and the length of time remediation may require. In addition, any estimate of liability must also consider the number of other PRPs and their financial strength. Based on prior practice in similar situations, it is possible that the State may assert a claim for natural resource damages with respect to the Arsynco site itself, and either the federal government or the State (or both) may assert claims against Arsynco for natural resource damages in connection with Berry's Creek; any such claim with respect to Berry's Creek could also be asserted against the approximately 150 PRPs which the EPA has identified in connection with that site. Any claim for natural resource damages with respect to the Arsynco site itself may also be asserted against BASF, the former owners of the Arsynco property. In September 2012, Arsynco entered into an agreement with three of the other PRPs that had previously been impleaded into New Jersey Department of Environmental Protection, et al. v. Occidental Chemical Corporation, et al., Docket No. ESX-L-9868-05 (the "NJDEP Litigation") and were considering impleading Arsynco into same. Arsynco entered into agreement to avoid impleader. Pursuant to agreement, Arsynco agreed to (1) a tolling period that would not be included when computing the running of any statute of limitations that might provide a defense to the NJDEP Litigation; (2) the waiver of certain issue preclusion defenses in the NJDEP Litigation; and (3) arbitration of certain potential future liability allocation claims if the other parties to the agreement are barred by a court of competent jurisdiction from proceeding against Arsynco. Since an amount of the liability cannot be reasonably estimated at this time, no accrual is recorded for these potential future costs. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not known.

A subsidiary of the Company markets certain agricultural 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. The Company is presently a member of several such task force groups, which requires payments for such memberships. In addition, in connection with our agricultural protection business, the Company plans to acquire product registrations and related data filed with the United States Environmental Protection Agency to support such registrations and other supporting data for several products. The acquisition of these product registrations and related data filed with the United States Environmental Protection Agency as well as payments to various task force groups could approximate \$4,501 through fiscal 2014.

On December 31, 2010, the Company acquired certain assets of Rising Pharmaceuticals, Inc. ("Rising"), a New Jersey based company that markets and distributes generic prescription and over the counter pharmaceutical products to leading wholesalers, chain drug stores, distributors, mass market merchandisers and others under its own label, throughout the United States. The purchase agreement provides for the payment of additional contingent consideration equal to one-half of the three year cumulative Rising earnings before interest, taxes, depreciation and amortization in excess of \$32,100, up to a maximum of \$6,000. As of September 30, 2013, the Company has accrued \$5,473 related to this contingent consideration. Any necessary future adjustments to this amount will be recorded as an income

statement charge at that time.

(7) Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. GAAP establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 – Unobservable inputs that are not corroborated by market data.

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

On a recurring basis, Aceto measures at fair value certain financial assets and liabilities, which consist of cash equivalents, investments and foreign currency contracts. The Company classifies cash equivalents and investments within Level 1 if quoted prices are available in active markets. Level 1 assets include instruments valued based on quoted market prices in active markets which generally include corporate equity securities publicly traded on major exchanges. Time deposits are very short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value, and are classified within Level 2 of the valuation hierarchy. The Company uses foreign currency forward contracts (futures) to minimize the risk caused by foreign currency fluctuation on its foreign currency receivables and payables by purchasing futures with one of its financial institutions. Futures are traded on regulated U.S. and international exchanges and represent commitments to purchase or sell a particular foreign currency at a future date and at a specific price. Aceto's foreign currency derivative contracts are classified within Level 2 as the fair value of these hedges is primarily based on observable forward foreign exchange rates. At September 30, 2013 the Company had foreign currency contracts outstanding that had a notional amount of \$64,378. Unrealized gains (losses) on hedging activities for the three months ended September 30, 2013 and 2012 was \$381 and (\$61), respectively, and are included in interest and other income, net, in the condensed consolidated statements of income. The contracts have varying maturities of less than one year.

Pursuant to the requirements of the Credit Agreement, the Company is required to deliver Hedging Agreements (as defined in the Credit Agreement) fixing the interest rate on not less than \$20,000 of the Term Loan. Accordingly, in March 2011, the Company entered into an interest rate swap for a notional amount of \$20,000, which has been designated as a cash flow hedge. The expiration date of this interest rate swap is December 31, 2015. The unrealized loss to date associated with this derivative, which is recorded in accumulated other comprehensive income in the condensed consolidated balance sheet at September 30, 2013, is \$227. The remaining balance of this derivative as of September 30, 2013 is \$11,250. Aceto's interest rate swap is classified within Level 2 as the fair value of this hedge is primarily based on observable interest rates.

As of September 30, 2013 and June 30, 2013, the Company had \$5,473 and \$5,346, respectively, of contingent consideration that was recorded at fair value in the Level 3 category, which related to the acquisition of Rising, which was completed during fiscal 2011. The contingent consideration was calculated using the present value of a probability weighted income approach.

During the fourth quarter of each year, the Company evaluates goodwill and indefinite-lived intangibles for impairment at the reporting unit level using an undiscounted cash flow model using Level 3 inputs. Additionally, on a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be Level 3 inputs.

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

The following tables summarize the valuation of the Company's financial assets and liabilities which were determined by using the following inputs at September 30, 2013 and June 30, 2013:

Fair Value Measurements at September 30, 2013 Using

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents:				
Time deposits	-	\$ 867	-	\$ 867
Investments:				
Time deposits	-	2,165	-	2,165
Foreign currency contracts-assets (1)	-	461	-	461
Foreign currency contracts-liabilities (2)	-	81	-	81
Derivative liability for interest rate swap (3)	-	227	-	227
Contingent consideration (4)	-	-	\$ 5,473	5,473

(1) Included in "Other receivables" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2013.

(2) Included in "Accrued expenses" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2013.

(3) Included in "Long-term liabilities" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2013.

(4) \$3,000 included in "Accrued expenses" and \$2,473 included in "Long-term liabilities" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2013.

Fair Value Measurements at June 30, 2013 Using

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents:				
Time deposits	-	\$ 856	-	\$856
Investments:				

Edgar Filing: ACETO CORP - Form 10-Q

Time deposits	-	2,144	-	2,144
Foreign currency contracts-assets (5)	-	14	-	14
Foreign currency contracts-liabilities (6)	-	173	-	173
Derivative liability for interest rate swap (7)	-	258	-	258
Contingent consideration (8)	-	-	\$ 5,346	5,346

(5) Included in "Other receivables" in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2013.

(6) Included in "Accrued expenses" in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2013.

(7) Included in "Long-term liabilities" in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2013.

(8) \$1,500 included in "Accrued expenses" and \$3,846 included in "Long-term liabilities" in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2013.

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

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 fair values of the Company's notes receivable and short-term and long-term bank loans were based upon current rates offered for similar financial instruments to the Company.

(8) Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard)", which allows companies the option to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. Under this guidance, an entity is required to perform a quantitative impairment test if qualitative factors indicate that it is more likely than not that indefinite-lived intangible assets are impaired. The qualitative factors are consistent with the guidance established for goodwill impairment testing and include identifying and assessing events and circumstances that would most significantly impact, individually or in the aggregate, the carrying value of the indefinite-lived intangible assets. The revised standard is effective for the Company in fiscal 2014 and early adoption is permitted. The adoption of ASU 2012 -02 is not expected to have a material impact on the Company's consolidated financial statements.

(9) Segment Information

The Company's business is organized along product lines into three principal segments: Human Health, Pharmaceutical Ingredients and Performance Chemicals.

Human Health - includes finished dosage form generic drugs and nutraceutical products.

Pharmaceutical Ingredients – includes pharmaceutical intermediates and active pharmaceutical ingredients (APIs).

Performance Chemicals - The Performance Chemicals segment is made up of two product groups: Specialty Chemicals and Agriculture Protection Products. Specialty chemicals includes a variety of chemicals which make plastics, surface coatings, textiles, fuels and lubricants perform to their designed capabilities. 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. In addition, Aceto is a supplier of diazos and couplers to the paper, film and electronics industries.

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

The Company's chief operating decision maker evaluates performance of the segments based on net sales, gross profit and income before income taxes. Unallocated corporate amounts are deemed by the Company as administrative, oversight costs, not managed by the segment managers. 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited and in thousands, except per-share amounts)

Three Months Ended September 30, 2013 and 2012:

	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Unallocated Corporate	Consolidated Totals
2013					
Net sales	\$ 38,694	\$ 48,424	\$ 42,143	\$ -	\$ 129,261
Gross profit	11,141	15,262	7,331	-	33,734
Income before income taxes	5,535	11,004	3,302	(2,267 )	17,574
2012					
Net sales	\$ 26,409	\$ 40,608	\$ 44,731	\$ -	\$ 111,748
Gross profit	8,103	6,576	6,826	-	21,505
Income before income taxes	3,119	2,553	3,085	(1,135 )	7,622

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
Aceto Corporation

We have reviewed the condensed consolidated balance sheet of Aceto Corporation and subsidiaries as of September 30, 2013 and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month periods ended September 30, 2013 and 2012, included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended September 30, 2013. These interim financial statements are the responsibility of the Company's management.

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Aceto Corporation and subsidiaries as of June 30, 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated August 29, 2013, 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, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ BDO USA, LLP

Melville, New York  
November 8, 2013

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 contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to our business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, financing plans, projected or anticipated benefits from acquisitions that we may make, or projections involving anticipated revenues, earnings or other aspects of our operating results or financial position, and the outcome of any contingencies. Any such forward-looking statements are based on current expectations, estimates and projections of management. We intend for these forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements. Words such as "may," "will," "expect," "believe," "anticipate," "project," "plan," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that could cause actual results to differ materially from those set forth or implied by any forward-looking statement include, but are not limited to, our ability to remain competitive with competitors, risks associated with the generic product industry, dependence on a limited number of suppliers, risks associated with healthcare reform and reductions in reimbursement rates, difficulty in predicting revenue stream and gross profit, industry and market changes, the effect of fluctuations in operating results on the trading price of our common stock, inventory levels, reliance on outside manufacturers, risks of incurring uninsured environmental and other industry specific liabilities, governmental approvals and regulations, risks associated with hazardous materials, potential violations of government regulations, product liability claims, reliance on Chinese suppliers, potential changes to Chinese laws and regulations, potential changes to laws governing our relationships in India, fluctuations in foreign currency exchange rates, tax assessments, changes in tax rules, global economic risks, risk of unsuccessful acquisitions, effect of acquisitions on earnings, indemnification liabilities, terrorist activities, reliance on key executives, litigation risks, volatility of the market price of our common stock, changes to estimates, judgments and assumptions used in preparing financial statements, failure to maintain effective internal controls, compliance with changing regulations, as well as other risks and uncertainties discussed in our reports filed with the Securities and Exchange Commission, including, but not limited to, our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 and other filings. Copies of these filings are available at [www.sec.gov](http://www.sec.gov).

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

NOTE REGARDING DOLLAR AMOUNTS

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide the readers of our financial statements with a narrative discussion about our business. The MD&A

is provided as a supplement to and should be read in conjunction with our financial statements and the accompanying notes.

#### Executive Summary

We are reporting net sales of \$129,261 for the three months ended September 30, 2013, which represents a 15.7% increase from the \$111,748 reported in the comparable prior period. Gross profit for the three months ended September 30, 2013 was \$33,734 and our gross margin was 26.1% as compared to gross profit of \$21,505 and gross margin of 19.2% in the comparable prior period. Our selling, general and administrative costs (SG&A) for the three months ended September 30, 2013 increased to \$15,764 from \$12,987 which we reported in the prior period. Our net income increased to \$11,335, or \$0.40 per diluted share, compared to net income of \$4,820, or \$0.18 per diluted share in the prior period.

Our financial position as of September 30, 2013 remains strong, as we had cash and cash equivalents and short-term investments of \$37,223, working capital of \$139,220 and shareholders' equity of \$208,438.

Our business is separated into three principal segments: Human Health, Pharmaceutical Ingredients and Performance Chemicals.

Products that fall within the Human Health segment include finished dosage form generic drugs and nutraceutical products. In December 2010, we acquired certain assets of Rising Pharmaceuticals, Inc., a New Jersey based company that markets and distributes generic prescription and over the counter pharmaceutical products to leading wholesalers, chain drug stores, distributors, mass market merchandisers and others under its own label, throughout the United States. This was a natural extension of our successful business model which provides customers and suppliers additional opportunities to penetrate the end user segment of the pharmaceutical market. With the Rising brand label, we have been able to expand our direct involvement in the pharmaceutical space through greater global awareness of our capabilities in the marketing of pharmaceutical intermediates, active ingredients and the ultimate end-products, finished dosage form generics.

According to an IMS Health press release on May 9, 2013, "the total cost of medicines declined by 3.5 percent on a real per capita basis to \$325.8 billion. In addition to lower utilization of branded drugs, the primary drivers were: the increased availability of lower-cost generics, which now account for 84 percent of all prescriptions; the moderating impact of price increases; and lower spending on recently launched medicines."

Aceto supplies the raw materials used in the production of nutritional and packaged dietary supplements, including vitamins, amino acids, iron compounds and biochemicals used in pharmaceutical and nutritional preparations. After we identified a change in the attitudes of Europeans towards nutritional products, we globalized this business, creating an operating company headquartered in Germany, Aceto Health Ingredients GmbH.

The Pharmaceutical Ingredients segment has two product groups: Active Pharmaceutical Ingredients (APIs) and Pharmaceutical Intermediates.

As the use of generic drugs has grown significantly over the years, we believe Aceto's presence in this market also increased dramatically, both domestically and internationally. We supply APIs to the major generic drug companies, who we believe view Aceto as a valued partner in their effort to develop and market generic drugs. The process of introducing a new API from pipeline to market spans a number of years and begins with Aceto partnering with a generic pharmaceutical manufacturer and jointly selecting an API, several years before the expiration of a composition of matter patent, for future generisizing. We then identify the appropriate supplier, and concurrently utilizing our global technical network, ensure they meet the highest standards of quality to comply with regulations. The generic pharmaceutical company will submit the ANDA for FDA approval or European-equivalent approval. The introduction of the API to market occurs after all the development testing has been completed and the ANDA or European-equivalent is approved and the patent expires or is deemed invalid. Aceto, has a robust pipeline of APIs poised to reach commercial levels, both in the United States and Europe.

Aceto has long been a supplier of pharmaceutical intermediates, the complex chemical compounds that are the building blocks used in producing APIs. These are the 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 look to Aceto as a source for high quality intermediates. Utilizing our global sourcing, regulatory support and quality assurance network, Aceto works with the large, global pharmaceutical companies, sourcing lower cost, quality pharmaceutical intermediates that will meet the same high

level standards adhered to by their current commercial products.

The Performance Chemicals segment includes specialty chemicals and agricultural protection products.

Aceto is a major supplier to many different industrial segments that require outstanding performance from chemical raw materials and additives. We provide chemicals which make plastics, surface coatings, textiles, fuels and lubricants perform to their designed capabilities. These additive specialty products include antioxidants, photo initiators, catalysts, curatives, brighteners and adhesion promoters.

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

We provide specialty chemicals for the food, beverage and fragrance industries. Aceto's raw materials are also used in sophisticated technology products, such as high-end electronic parts (circuit boards and computer chips) and binders for specialized rocket fuels. Aceto is also a leader in the supply of diazos and couplers to the paper and film industries. Specific end uses for these products include microfilm, blueprints and photo tooling of printed circuit boards.

We also provide organic intermediates and colorants. The color producing industry manufactures a wide assortment of products and Aceto is 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.

According to a September 16, 2013 Federal Reserve Statistical Release, in the second quarter of calendar year 2013, the index for consumer durables, which impacts the Specialty Chemicals business of the Performance Chemicals segment, grew at an annual rate of 5.7%.

Aceto's agricultural protection products include herbicides, fungicides and insecticides which control weed growth as well as the spread of insects and microorganisms that can severely damage plant growth. The agricultural world is dependent on a large variety of deterrent products and we believe Aceto has become a valued partner to the global generic agricultural industry by providing superior quality functional products. One of Aceto's most widely used agricultural protection products is a sprout inhibitor that extends the storage life of potatoes. We work with the large agrochemical distributors to provide alternate sources for key products. Utilizing our global sourcing and regulatory capabilities, we identify and qualify manufacturers either producing the product or with knowledge of the chemistry necessary to produce the product and then file an application with the EPA for a product registration. Aceto has an ongoing working relationship with manufacturers in China and India to determine which of the non-patented, or generic, agricultural protection products they produce can be effectively marketed in the Western world. Over the past several years, we have successfully brought a number of products to market. In addition, we have a strong pipeline, which includes future additions to our product portfolio. The combination of our global sourcing and regulatory capabilities makes the generic agricultural market a niche for us and we will continue to offer new product additions in this market as we move forward. In the National Agricultural Statistics Services release dated June 28, 2013, the total crop acreage planted in the United States in 2013 remained consistent from 2012 at 326 million acres. The number of peanut acres planted in 2013 was down 33% from 2012 levels while sugarcane acreage harvested increased almost 1.0% from 2012. In addition, the potato acreage harvested in 2013 decreased approximately 6.3% from the 2012 level.

We believe the Company's business strengths are sourcing, regulatory support, quality assurance and marketing and distribution. We distribute more than 1,100 chemical compounds used principally as finished products or raw materials in the pharmaceutical, nutraceutical, agricultural, coatings and industrial chemical industries. With business operations in nine countries, Aceto's global reach is distinctive in the industry, enabling us to source and supply quality products on a worldwide basis. Leveraging local professionals, we source more than two-thirds of our products from Asia, buying from approximately 500 companies in China and 200 in India.

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



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

As you read this MD&A section, refer to the accompanying condensed consolidated statements of income, which present the results of our operations for the three months ended September 30, 2013 and 2012. We analyze and explain the differences between periods in the specific line items of the condensed consolidated statements of income.

#### Critical Accounting Estimates and Policies

As disclosed in our Form 10-K for the year ended June 30, 2013, 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, partnered products, 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. Since June 30, 2013, 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, 2013 Compared to Three Months Ended September 30, 2012

##### Net Sales by Segment Three months ended September 30,

Segment	2013		2012		Comparison 2013 Over/(Under) 2012	
	Net sales	% of Total	Net sales	% of Total	\$ Change	% Change
Human Health Pharmaceutical	\$ 38,694	29.9 %	\$ 26,409	23.6 %	\$ 12,285	46.5 %
Ingredients	48,424	37.5	40,608	36.4	7,816	19.2
Performance Chemicals	42,143	32.6	44,731	40.0	(2,588 )	(5.8 )
Net sales	\$ 129,261	100.0 %	\$ 111,748	100.0 %	\$ 17,513	15.7 %

##### Gross Profit by Segment Three months ended September 30,

Segment	2013		2012		Comparison 2013 Over/(Under) 2012	
	Gross Profit	% of Sales	Gross Profit	% of Sales	\$ Change	% Change

Edgar Filing: ACETO CORP - Form 10-Q

Human Health	\$11,141	28.8	%	\$8,103	30.7	%	\$3,038	37.5	%
Pharmaceutical Ingredients	15,262	31.5		6,576	16.2		8,686	132.1	
Performance Chemicals	7,331	17.4		6,826	15.3		505	7.4	
Gross profit	\$33,734	26.1	%	\$21,505	19.2	%	\$12,229	56.9	%

20

## Net Sales

Net sales increased \$17,513, or 15.7%, to \$129,261 for the three months ended September 30, 2013, compared with \$111,748 for the prior period. We reported sales increases in our Human Health and Pharmaceutical Ingredients business segments, offset by a decrease in our Performance Chemicals business segment.

### Human Health

Net sales for the Human Health segment increased by \$12,285 for the three months ended September 30, 2013, to \$38,694, which represents a 46.5% increase over net sales of \$26,409 for the prior period, largely driven by an increase in sales of Rising products of \$9,028 due to nine new generic product launches at Rising during fiscal 2013. In addition, we experienced an increase of \$2,720 in domestic sales of nutritional products due to increased business for new products to existing customers.

### Pharmaceutical Ingredients

Net sales for the Pharmaceutical Ingredients segment increased by \$7,816 for the three months ended September 30, 2013, to \$48,424, which represents a 19.2% increase over net sales of \$40,608 for the prior period. Overall, the domestic Pharmaceutical Ingredients group had an increase of \$10,151, when compared to the prior period. The primary reason for the increase is due to the large reorder of a recently launched API. In addition, sales of intermediates, which represent key components used in the manufacture of certain drug products, have risen both in the United States and abroad by approximately \$3,492 over the prior period.

### Performance Chemicals

Net sales for the Performance Chemicals segment decreased to \$42,143 for the three months ended September 30, 2013, a decrease of \$2,588 or 5.8%, from net sales of \$44,731 for the prior period. Our Performance Chemicals segment saw a decline in sales of our agricultural protection products, primarily from decreased sales of a broad-spectrum herbicide. In addition, there was a drop in domestic sales of pigment and miscellaneous intermediates, sold by our Specialty Chemicals business.

## Gross Profit

Gross profit increased to \$33,734 (26.1% of net sales) for the three months ended September 30, 2013, as compared to \$21,505 (19.2% of net sales) for the prior period.

### Human Health

Human Health's gross profit of \$11,141 for the three months ended September 30, 2013 increased \$3,038, or 37.5%, over the prior period. The gross margin decreased to 28.8% for the three months ended September 30, 2013 compared to 30.7% for the prior period. The increase in gross profit in the Human Health segment primarily relates to increased sales volume of Rising products. The decline in gross margin is predominantly due to unfavorable product mix on Rising products, specifically, aggressive competition in certain of its high volume products.

### Pharmaceutical Ingredients

Gross profit for the three months ended September 30, 2013 for the Pharmaceutical Ingredients business increased by \$8,686 or 132.1% over the prior period. The gross margin of 31.5% was also higher than the prior period's gross margin of 16.2%. The increase in both gross profit and gross margin is predominantly the result of the increase in the sales volume of reorders of certain API's, which typically yield a significantly higher gross margin.

#### Performance Chemicals

Gross profit for the Performance Chemicals segment increased to \$7,331 for the three months ended September 30, 2013, versus \$6,826 for the prior period, an increase of \$505, or 7.4%. The gross margin at 17.4% for the three months ended September 30, 2013 was higher than the prior period's gross margin of 15.3%. The increase in both gross profit and gross margin is due to a favorable product mix on Specialty Chemical products sold both domestically and abroad. In addition, even though there were decreased sales of a broad-spectrum herbicide, an agricultural protection product, the related margin of this product was low, therefore the gross margin has improved from the prior period.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased \$2,777, or 21.4%, to \$15,764 for the three months ended September 30, 2013 compared to \$12,987 for the prior period. As a percentage of sales, SG&A was 12.2% for the three months ended September 30, 2013 versus 11.6% in the prior period. The primary reason for the increase in SG&A is due to additional accrued performance award expense and increased fringe benefits and stock-based compensation expense due to increased financial performance.

### Research and Development Expenses

Research and development expenses (R&D) decreased \$351 over the prior period to \$554 for the three months ended September 30, 2013. R&D represents investment in Rising's generic finished dosage form product pipeline. The majority of the R&D expenses are milestone based, which will likely cause fluctuation from quarter to quarter.

### Operating Income

For the three months ended September 30, 2013, operating income was \$17,416 compared to \$7,613 in the prior period, an increase of \$9,803 or 128.8%. This increase was due to the overall increase in gross profit of \$12,229 and the decrease in R&D of \$351 offset by the increase in SG&A of \$2,777 from the comparable prior period.

### Provision for Income Taxes

The effective tax rate for the three months ended September 30, 2013 was 35.5% versus 36.8% for the prior period. The decrease in the effective tax rate was due to the expected mix of profits from lower tax rate jurisdictions in Europe compared to the United States in fiscal 2014.

### Liquidity and Capital Resources

#### Cash Flows

At September 30, 2013, we had \$35,058 in cash and cash equivalents, of which \$26,310 was outside the United States, \$2,165 in short-term investments, all of which is held outside the United States and \$26,253 in long-term debt (including the current portion), all of which is in the United States. Working capital was \$139,220 at September 30, 2013 versus \$128,393 at June 30, 2013. The \$26,310 of cash held outside of the United States is fully accessible to meet any liquidity needs of the countries in which Aceto operates. The majority of the cash located outside of the United States is held by our European operations and can be transferred into the United States. Although these amounts are fully accessible, transferring these amounts into the United States or any other countries could have certain tax consequences. A deferred tax liability will be recognized when we expect that we will recover undistributed earnings of our foreign subsidiaries in a taxable manner, such as through receipt of dividends or sale of the investments. The Company intends to permanently reinvest these undistributed earnings and has no plan for any repatriation. A portion of our cash is held in operating accounts that are with third party financial institutions. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to cash in our operating accounts.

Our cash position at September 30, 2013 increased \$1,827 from the amount at June 30, 2013. Operating activities for the three months ended September 30, 2013 provided cash of \$8,010, for this period, as compared to cash used of

\$2,942 for the comparable period. The \$8,010 was comprised of \$11,335 in net income and \$2,335 derived from adjustments for non-cash items less a net \$5,660 decrease from changes in operating assets and liabilities. The non-cash items included \$1,774 in depreciation and amortization expense, \$313 of earnings on an equity investment in a joint venture and \$798 in non-cash stock compensation expense. Trade accounts receivable increased \$2,224 during the three months ended September 30, 2013, due predominantly to an increase in sales in this quarter as compared to the fourth quarter of fiscal 2013. Inventories increased by approximately \$2,356 and accounts payable increased by \$1,992 due primarily to an increase in inventories in-transit for our agricultural protection products business related to an herbicide used to control sedge on rice, vegetables and turf and ornamental grasses. Our cash position at September 30, 2012 decreased \$519 from the amount at June 30, 2012. Operating activities for the three months ended September 30, 2012 used cash of \$2,942, for this period, as compared to cash provided by operations of \$5,913 for the comparable period. The \$2,942 was comprised of \$4,820 in net income and \$1,818 derived from adjustments for non-cash items less a net \$9,580 decrease from changes in operating assets and liabilities.

Investing activities for the three months ended September 30, 2013 used cash of \$412, primarily related to the purchases of property and equipment. Investing activities for the three months ended September 30, 2012 provided cash of \$472, primarily related to sales of investments of \$1,002 less payments for intangible assets and property and equipment of \$498.

Financing activities for the three months ended September 30, 2013 used cash of \$6,388 primarily from \$5,816 of repayment of bank borrowings and \$1,665 of payment of cash dividends. This use of cash was offset by \$861 proceeds received from exercise of stock options. Financing activities for the three months ended September 30, 2012 provided cash of \$1,709, primarily from \$4,000 of bank borrowings offset by \$1,548 of repayments of bank borrowings and the payment of cash dividends of \$1,477.

#### Credit Facilities

We have available credit facilities with certain foreign financial institutions. At September 30, 2013, the Company had available lines of credit with foreign financial institutions totaling \$9,007, all of which is available for borrowing by the respective foreign territories. We are not subject to any financial covenants under these arrangements.

On December 31, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") with two U.S. financial institutions. Aceto may borrow, repay and reborrow during the period ending December 31, 2015, up to but not exceeding at any one time outstanding \$40,000 (the "Revolving Loans"). The Revolving Loans may be (i) Adjusted LIBOR Loans (as defined in the Credit Agreement), (ii) Alternate Base Rate Loans (as defined in the Credit Agreement) or (iii) a combination thereof. As of September 30, 2013, there were no Revolving Loans outstanding. The Credit Agreement also allows for the borrowing of up to \$40,000 (the "Term Loan"). The Company borrowed a Term Loan of \$40,000 on December 31, 2010. The Term Loan interest may be payable as an (i) Adjusted LIBOR Loan, (ii) Alternate Base Rate Loan, or (iii) a combination thereof. As of September 30, 2013, the remaining amount outstanding under the original amortizing Term Loan is \$22,750 and is payable as an Adjusted LIBOR Loan at an interest rate of 2.0% at September 30, 2013.

The Credit Agreement also provides that commercial letters of credit may be issued to provide the primary payment mechanism in connection with the purchase of any materials, goods or services by us in the ordinary course of business. At September 30, 2013, we had utilized \$22,995 in bank loans and letters of credit, leaving \$39,755 of this facility unused. 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.

The Credit Agreement provides for a security interest in all of our personal property. The Credit Agreement contains several financial covenants including, among other things, maintaining a minimum level of debt service. We are also subject to certain restrictive covenants, including, among other things, 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, 2013.

Pursuant to the requirements of the Credit Agreement, we are required to deliver Hedging Agreements (as defined in the Credit Agreement) fixing the interest rate on not less than \$20,000 of the Term Loan. Accordingly, in March 2011, we entered into an interest rate swap for a notional amount of \$20,000, which has been designated as a cash flow hedge. The expiration date of this interest rate swap is December 31, 2015.



## Working Capital Outlook

Working capital was \$139,220 at September 30, 2013 versus \$128,393 at June 30, 2013. In March 2010, we purchased a building in Port Washington, New York, which is now the site of our global headquarters. We moved our corporate offices into this new building in April 2011. On June 30, 2011, we entered into a mortgage payable for \$3,947 on this new corporate headquarters. This mortgage payable is secured by the land and building and is being amortized over a period of 20 years. The mortgage payable bears interest at 5.92% and matures on June 30, 2021.

We continually evaluate possible acquisitions of or investments in businesses that are complementary to our own, and such transactions may require the use of cash. In connection with our agricultural protection business, we plan to continue to acquire product registrations and related data filed with the United States Environmental Protection Agency as well as payments to various task force groups, which could approximate \$4,501 over this fiscal year.

In accordance with the purchase agreement, as amended, related to the Rising acquisition, \$7,970 of deferred consideration was to be paid by Aceto over a four year period with \$1,500 paid in February 2012, \$1,470 paid in December 2012, \$1,500 to be paid not later than fifty-six days following the third anniversary of the closing date of the purchase and \$3,500 to be paid not later than fifty-six days following the fourth anniversary of the closing date of the purchase. The purchase agreement also provides for the payment of additional contingent consideration equal to one-half of the three year cumulative Rising earnings before interest, taxes, depreciation and amortization in excess of \$32,100, up to a maximum of \$6,000. As of September 30, 2013, the Company has accrued \$5,473 related to this contingent consideration, with \$1,500 anticipated to be paid in the fourth quarter of fiscal 2014.

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, the repayment of our bank loans and the anticipated continuation of cash dividends for the next twelve months.

## Impact of Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard)", which allows companies the option to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. Under this guidance, an entity is required to perform a quantitative impairment test if qualitative factors indicate that it is more likely than not that indefinite-lived intangible assets are impaired. The qualitative factors are consistent with the guidance established for goodwill impairment testing and include identifying and assessing events and circumstances that would most significantly impact, individually or in the aggregate, the carrying value of the indefinite-lived intangible assets. The revised standard is effective for the Company in fiscal 2014 and early adoption is permitted. The adoption of ASU 2012 -02 is not expected to have a material impact on the Company's consolidated financial statements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Market Risk Sensitive Instruments

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

### Investment Market Price Risk

We had short-term investments of \$2,165 at September 30, 2013. Those short-term investments consisted of time deposits. Time deposits are short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value.

#### 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, 2013, we had foreign currency contracts outstanding that had a notional amount of \$64,378. 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, 2013 was not material.

We are subject to risk from changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income (loss). On September 30, 2013, we had translation exposure to various foreign currencies, with the most significant being the Euro. The potential loss as of September 30, 2013, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounted to \$7,877. Actual results may differ.

#### Interest rate risk

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

Pursuant to the requirements of the Credit Agreement, the Company is required to deliver Hedging Agreements (as defined in the Credit Agreement) fixing the interest rate on not less than \$20,000 of the Term Loan. Accordingly, in March 2011, the Company entered into an interest rate swap for a notional amount of \$20,000, which has been designated as a cash flow hedge. The expiration date of this interest rate swap is December 31, 2015. The unrealized loss to date associated with this derivative, which is recorded in accumulated other comprehensive income in the consolidated balance sheet at September 30, 2013, is \$227. Aceto's interest rate swap is classified within Level 2 as the fair value of this hedge is primarily based on observable interest rates.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer, with assistance from other members of our management, have reviewed the effectiveness of our disclosure controls and procedures as of September 30, 2013 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

##### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As previously described in our Form 10-K for the year ended June 30, 2013, we are subject to various environmental proceedings for which there were no material changes during the three months ended September 30, 2013.

25

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- in “Item 1A. Risk Factors” in our Form 10-K for the year ended June 30, 2013 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, 2013 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Index to Exhibits

- |           |  |
|-----------|--|
| 10.1      | Aceto Corporation 2013 Senior Executive Retirement Plan  |
| 15.1      | Letter re unaudited interim financial information  |
| 31.1      | Certifications of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2      | Certifications of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1      | Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.       |
| 32.2      | Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.       |
| 101.INS** | XBRL Instance Document   |
| 101.SCH** | XBRL Taxonomy Extension Schema Document  |

101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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 8,  
2013

BY /s/ Salvatore Guccione

Salvatore Guccione, President and Chief Executive  
Officer  
(Principal Executive Officer)

DATE November 8,  
2013

BY /s/ Douglas Roth

Douglas Roth, Chief Financial Officer  
(Principal Financial Officer)