ACETO CORP
Form 10-Q
February 08, 2007

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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 24,313,090 shares of common stock outstanding as of February 2, 2007.

ACETO CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT FOR THE PERIOD ENDED DECEMBER 31, 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)

	December 31, 2006	June 30, 2006
	(unaudited)	
ASSETS		
Current assets:		
Cash in banks	$ 30,608	$ 33,732
Investments	9,632	3,309
Trade receivables, less allowance for doubtful		

accounts (December, $356, June $416)	55,802	50,993
Other receivables	2,744	1,406
Inventory	51,049	47,259
Prepaid expenses and other current assets	1,277	1,011
Deferred income tax benefit, net	3,459	3,396
Total current assets	154,571	141,106
Long-term notes receivable	567	557
Property and equipment, net	4,594	4,808
Property held for sale	4,531	4,531
Goodwill	1,802	1,755
Intangible assets, net	4,050	3,789
Deferred income tax benefit, net	6,388	7,356
Other assets	3,483	2,690
TOTAL ASSETS	$179,986	$166,592
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,102	$ 24,424
Accrued expenses	13,587	10,612
Note payable - related party	500	500
Deferred income tax liability	863	863
Total current liabilities	45,052	36,399
Long-term liabilities	6,529	6,379
Environmental remediation liability	5,200	5,200
Deferred income tax liability	3,226	3,329
Minority interest	254	232
Total liabilities	60,261	51,539
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, $.01 par value, 40,000 shares authorized; 25,644 shares issued; 24,309 and 24,278 shares outstanding at December 31, 2006 and June 30, 2006, respectively	256	256
Capital in excess of par value	56,819	56,691
Retained earnings	70,847	68,464
Treasury stock, at cost, 1,355 and 1,366 shares at December 31, 2006 and June 30, 2006, respectively	(12,895)	(13,198)
Accumulated other comprehensive income	4,698	2,840
Total shareholders' equity	119,725	115,053
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$179,986	$166,592

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)

	Six Months Ended December 31,	
	2006	2005
Net sales	$150,411	$144,460
Cost of sales	124,958	120,489
Gross profit	25,453	23,971
Selling, general and administrative expenses	19,244	20,019
Operating income	6,209	3,952
Other income (expense):		
Interest expense	(81)	(61)
Interest and other income, net	169	1,178
	88	1,117
Income from continuing operations before income taxes	6,297	5,069
Provision for income taxes	2,091	1,521
Income from continuing operations	4,206	3,548
Loss from discontinued operations, net of income taxes (Note 3)	--	(27)
Net income	$ 4,206	$ 3,521
Basic income per common share:		
Income from continuing operations	$ 0.17	$ 0.15
Loss from discontinued operations	--	--
Net income	$ 0.17	$ 0.15
Diluted income per common share:		
Income from continuing operations	$ 0.17	$ 0.14
Loss from discontinued operations	--	--
Net income	$ 0.17	$ 0.14
Weighted average shares outstanding:		
Basic	24,288	24,280
Diluted	24,625	24,595

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 December 31,	
	2006	2005
Net sales	$75,686	$69,467
Cost of sales	63,124	57,999
Gross profit	12,562	11,468
Selling, general and administrative expenses	9,840	9,657
Operating income	2,722	1,811
Other income (expense):		
Interest expense	(68)	(37)
Interest and other income (expense), net	(32)	395
	(100)	358
Income from continuing operations before income taxes	2,622	2,169
Provision for income taxes	878	622
Income from continuing operations	1,744	1,547
Loss from discontinued operations, net of income taxes (Note 3)	--	--
Net income	$ 1,744	$ 1,547
Basic income per common share:		
Income from continuing operations	$ 0.07	$ 0.06
Loss from discontinued operations	--	--
Net income	$ 0.07	$ 0.06
Diluted income per common share:		
Income from continuing operations	$ 0.07	$ 0.06
Loss from discontinued operations	--	--
Net income	$ 0.07	$ 0.06
Weighted average shares outstanding:		
Basic	24,293	24,273
Diluted	24,670	24,557

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

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

	Six Months Ended December 31, 2006	2005
Operating activities:		
Net income	$ 4,206	$ 3,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	867	686
Provision for doubtful accounts	59	--
Non-cash stock compensation	246	50
Deferred income taxes	802	1,387
Changes in assets and liabilities:		
Investments - trading securities	(65)	19
Trade accounts receivable	(4,808)	(1,114)
Other receivables	(1,450)	124
Inventory	(3,219)	(325)
Prepaid expenses and other current assets	(259)	(681)
Other assets	(373)	(399)
Accounts payable	5,838	(1,192)
Other accrued expenses and long-term liabilities	1,162	2,454
Net cash provided by operating activities	3,006	4,530
Investing activities:		
Purchases of investments	(6,222)	--
Payments received on notes receivable	34	31
Purchases of intangible assets	(401)	--
Purchases of property and equipment	(339)	(268)
Net cash used in investing activities	(6,928)	(237)
Financing activities:		
Purchases of treasury stock	--	(581)
Proceeds from exercise of stock options	151	105
Excess tax benefit on exercise of stock options	24	21
Payments of short-term bank loans	--	(126)
Net cash provided by (used in) financing activities	175	(581)
Effect of exchange rate changes on cash	623	(101)
Net increase (decrease) in cash	(3,124)	3,611
Cash at beginning of period	33,732	19,950
Cash at end of period	$30,608	$23,561

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

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 supercedes 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.

In December 2006, the Company granted 56 options to the Directors at an exercise price equal to the market value of the common stock on the date of grant. These options vest over one year and will expire ten years from the date of grant. Compensation expense of $224, as determined using the Black-Scholes option pricing model will be charged over the vesting period.

(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 six months ended December 31, 2006. Excluded from the sale of CDC's product lines was Anti-Clog, an EPA-registered biocide that has a unique delivery system and is used in commercial air-conditioning systems. As a result of management's decision to retain the Anti-Clog product, CDC's operating results are included in continuing operations in the consolidated statements of income and are included within the Chemicals & Colorants segment.

On September 6, 2005, the Company completed the sale of certain assets of Magnum Research Corp. for $81, of which $66 was received as of December 31, 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 and six months ended December 31, 2005 were $0 and $154, respectively. The net loss from discontinued operations for the three and six months ended December 31, 2005 were $0 and $27, respectively, which includes a loss on the sale of certain assets of Magnum Research Corp. of $22, net of income tax.

(4) SHORT-TERM INVESTMENTS

A summary of short-term investments were as follows:

	December 31, 2006		June 30, 2006	
	Fair Value	Cost Basis	Fair Value	Cost Basis
Trading securities				
Corporate equity securities	$ 765	$ 152	$ 697	$ 152
Available for sale securities				

Corporate bonds	1,180	1,204	1,167	$1,210
Government and agency securities	7,687	7,678	1,445	$1,501
	$9,632		$3,309	

The gains (losses) on trading securities were $63 and $(54) for the three months ended December 31, 2006 and 2005, respectively. The gains (losses) on trading securities for the six months ended December 31, 2006 and 2005 were $65 and $(19), respectively.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of $1,802 and $1,755 as of December 31, 2006 and June 30, 2006, respectively, relates to the Health Sciences segment.

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

	Gross Carrying Value	Accumulated Amortization	Net Book Value
December 31, 2006			
Customer relationships	$2,898	$1,242	$1,656
EPA Registration	666	16	650
Patent License	838	95	743
Non-compete agreements	242	145	97
	$4,644	$1,498	$3,146

June 30, 2006			
Customer relationships	$2,755	$ 984	$1,771
EPA registrations	265	3	262
Patent license	838	57	781
Non-compete agreements	230	115	115
Customer lists	600	600	--
	$4,688	$1,759	$2,929

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

Amortization expense for intangible assets subject to amortization amounted to

$339 and $275 for the six months ended December 31, 2006 and 2005, respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the succeeding years ended December 31 are as follows: 2007: $565; 2008: $565; 2009: $529; 2010: $520; 2011: $288 and thereafter: $679.

As of December 31, 2006 and June 30, 2006, the Company also had $904 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 December 31, 2006 and June 30, 2006 were as follows:

	December 31, 2006	June 30, 2006
Accrued compensation	$ 2,557	$ 2,691
Accrued environmental remediation costs	200	200
Accrued dividends payable	1,823	--
Accrued income taxes payable	657	2,019
Other accrued expenses	8,350	5,702
	$13,587	$10,612

(7) COMMON STOCK

On December 7, 2006, the Company's board of directors declared a regular semi-annual cash dividend of $0.075 per share which was paid on January 12, 2007 to shareholders of record on December 22, 2006. The amount paid for the cash dividend of $1,823 was included in other accrued expenses at December 31, 2006.

(8) NET INCOME PER COMMON SHARE

Basic income per common share is based on the weighted average number of common shares outstanding during the period. Diluted income per common share includes the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options, which resulted in a dilutive effect of 377 and 284 shares for the three months ended December 31, 2006 and 2005, respectively. For the six months ended December 31, 2006 and 2005, the stock options which were potential common shares outstanding resulting in a

dilutive effect were 676 and 631, respectively. There were 1,599 and 1,610 stock options outstanding as of December 31, 2006 and 2005, respectively, that were not included in the calculation of diluted income per common share for the

three months ended December 31, 2006 and 2005, respectively, because their effect would have been anti-dilutive.

(9) COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income.

The components of comprehensive income were as follows:

	Six months ended December 31,		Three months ended December 31,	
	2006	2005	2006	2005
Comprehensive income:				
Net income	$4,206	$3,521	$1,744	$1,547
Foreign currency translation adjustment	1,724	(128)	1,359	(310)
Unrealized gain (loss) on available for sale securities	36	(46)	2	(5)
Change in fair value of cross currency interest rate swaps	98	54	8	145
Total	$6,064	$3,401	$3,113	$1,377

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

(10) DEFERRED INCOME TAXES

The decrease in the deferred income tax assets of $802 and $1,387 during the six months ended December 31, 2006 and 2005, respectively, related to the reduction of taxes payable due to the utilization of foreign net operating loss carryforwards.

(11) SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes for the six months ended December 31, 2006 and 2005 were as follows:

	2006	2005
Interest	$ 61	$ 48
Income taxes, net of refunds	2,539	497

(12) RELATED PARTY TRANSACTIONS

Certain directors of the Company are affiliated with law firms that serve as counsel to the Company on various corporate matters. During the six months ended December 31, 2006 and 2005, the Company incurred legal fees of $183 and $157,

respectively, for services rendered to the Company by these law firms.

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

(13) COMMITMENTS AND CONTINGENCIES

As of December 31, 2006, the Company had outstanding purchase obligations totaling $67,823 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.

The Company has environmental remediation obligations in connection with Arsynco, Inc. ("Arsynco"), a subsidiary formerly involved in manufacturing chemicals, located in Carlstadt, New Jersey, which was closed in 1993 and is currently held for sale. During fiscal 2006, based on continued monitoring of the contamination at the site and the current proposed plan of remediation, the Company received an estimate from an environmental consultant stating that the costs of remediation could be between $5,400 and $6,900. As of both December 31, 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 Crop Protection segment. In September 2005, shortly before a trial was expected to begin, the parties agreed

to a settlement. Under the terms of the settlement agreement, the Company was obligated to pay $1,375, of which $775 was paid as of December 31, 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 six months ended December 31, 2005.

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

In December 2005, the Company exited the leased space previously occupied by CDC and Magnum Research Corp. As a result, the Company recorded a pre-tax charge of $378, included in selling, general and administrative expenses representing the present value of the remaining lease obligation, reduced by estimated sub-lease rental income. In June 2006, the Company negotiated a lease termination with its landlord for the facility. In connection with the lease termination, the landlord and a third party entered into a long-term lease for which the Company guaranteed the rental payments by the third party through September 30, 2009. The aggregate rental payments of the third party that are guaranteed by the Company are $925 and the fair value of this guarantee is deemed to be insignificant.

Commercial letters of credit are issued by the Company in the ordinary course of business through major domestic banks as requested by certain suppliers. The Company had open letters of credit of approximately $675 and $1,349 as of December 31, 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.

(14) 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.

(15) 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.

- Crop Protection - crop protection products including herbicides, fungicides and insecticides, as well as a sprout inhibitor for potatoes. The Company has changed the name of this segment from Agrochemicals to Crop Protection as of December 31, 2006.

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.

Six months ended December 31, 2006 and 2005

	Health Sciences	Chemicals & Colorants	Crop Protection	Consolidated Totals
2006				
Net sales	$82,655	$57,385	$10,371	$150,411
Gross profit	15,415	7,598	2,440	25,453
Unallocated cost of sales (1)				--
Net gross profit				$ 25,453
2005				
Net sales	$82,734	$51,877	$9,849	$144,460
Gross profit	16,265	8,093	1,938	26,296

Unallocated cost of sales (1)	(2,325)
Net gross profit	$ 23,971

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

Three months ended December 31, 2006 and 2005:

	Health Sciences	Chemicals & Colorants	Crop Protection	Consolidated Totals
2006				
Net sales	$40,151	$28,543	$6,992	$75,686
Gross profit	7,198	3,711	1,653	12,562
Unallocated cost of sales (1)				--
Net gross profit				$12,562
2005				
Net sales	$38,058	$25,729	$5,680	$69,467
Gross profit	7,432	4,004	1,282	12,718
Unallocated cost of sales (1)				(1,250)
Net gross profit				$11,468

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

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.

Net sales and gross profit by location for the six months ended December 31, 2006 and 2005 and long-lived assets by location as of December 31, 2006 and June 30, 2006 were as follows:

	Net Sales Six months ended December 31,		Gross Profit Six months ended December 31,		Long-lived Assets As of	
	2006	2005	2006	2005	December 31, 2006	June 30, 2006
United States	$ 87,440	$ 91,273	$14,101	$13,448	$ 3,276	$ 3,033
Germany	33,493	27,199	8,002	7,013	4,011	4,061
Netherlands	3,937	5,491	760	927	135	179
France	7,899	5,767	896	713	81	80
Asia-Pacific	17,642	14,730	1,694	1,870	2,942	2,999
Total	$150,411	$144,460	$25,453	$23,971	$10,445	$10,352

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 December 31, 2006, and the related consolidated statements of income for the three-month and six-month periods ended December 31, 2006 and 2005, and the related consolidated statements of cash flows for the six-month periods ended December 31, 2006 and 2005, included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended December 31, 2006. These interim financial statements are the responsibility of the Company's management.

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

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

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

/s/ BDO Seidman LLP

Melville, New York

February 6, 2007

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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 other than as required by law.

NOTE REGARDING DOLLAR AMOUNTS

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

EXECUTIVE SUMMARY

We are reporting net sales of $150,411 for the six months ended December 31, 2006, which represents a 4.1% increase over the $144,460 reported in the comparable prior period. Gross profit for the six months ended December 31, 2006 was $25,453 and our gross margin was 16.9% as compared to gross profit of $23,971 and gross margin of 16.6% for the comparable prior period. Interest and other income (expense) for the six months ended December 31, 2006 was $88 which is a decrease of $1,029 as compared to the comparable prior period. The decrease can be directly attributed to a decrease in a government subsidy paid annually in Shanghai and larger foreign exchange losses due to the devaluation of the US dollar compared to the Euro and Chinese Yuan. Our income from continuing operations of $4,206, or $0.17 per diluted share was $658 or 18.5% higher than the comparable prior period.

Our financial position as of December 31, 2006 remains strong, as we had cash of $30,608, working capital of $109,519, no long-term debt, and shareholders' equity of $119,725.

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

The Health Sciences segment is our largest segment in terms of both sales and gross profits. This segment is comprised of APIs, pharmaceutical intermediates, diagnostic chemicals 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 Europe counterparts. Given our regulatory expertise, we believe this growth in the size of the European Union 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 textiles, ink, paper and coatings, 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 Crop Protection segment sells herbicides, pesticides, and other agricultural chemicals to customers, primarily located in the United States and Western Europe. Our joint venture with Nufarm, which markets Butoxone(R), is expected to increase our market share of the peanut, soybean and alfalfa herbicide markets. The Crop Protection segment was formerly reported as the Agrochemical segment. The name change of this segment was effected on December 31, 2006.

Our main business strengths are sourcing, regulatory support, quality control, marketing and distribution. We believe that 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 and six month periods ended December 31, 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. The actual results may differ from these estimates.

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

RESULTS OF OPERATIONS

SIX MONTHS ENDED DECEMBER 31, 2006 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2005

NET SALES BY SEGMENT
Six months ended December 31,

Segment	2006 Net sales	2006 % of total	2005 Net sales	2005 % of total	Comparison 2006 Over/(Under) 2005 $ Change	Comparison 2006 Over/(Under) 2005 % change
Health Sciences	$ 82,655	55.0%	$ 82,734	57.3%	$ (79)	(0.1)%
Chemicals & Colorants	57,385	38.1	51,877	35.9	5,508	10.6
Crop Protection	10,371	6.9	9,849	6.8	522	5.3
Net sales	$150,411	100.0%	$144,460	100.0%	$5,951	4.1%

GROSS PROFIT BY SEGMENT
Six months ended December 31,

Comparison 2006

Segment	2006 Gross Profit	2006 % of Sales	2005 Gross profit	2005 % of sales	Over/(Under) 2005 $ Change	Over/(Under) 2005 % change
Health Sciences	$15,415	18.6%	$16,265	19.7%	$ (850)	(5.2)%
Chemicals & Colorants	7,598	13.2	8,093	15.6	(495)	(6.1)
Crop Protection	2,440	23.5	1,938	19.7	502	25.9
Segment gross profit	25,453	16.9	26,296	18.2	(843)	(3.2)
Freight and storage costs (1)	--	--	(2,325)	(1.6)	2,325	100.0
Gross profit	$25,453	16.9%	$23,971	16.6%	$1,482	6.2%

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

The Company's chief operating decision maker evaluates performance of the segments based on 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.

NET SALES

Net sales increased $5,951, or 4.1%, to $150,411 for the six months ended December 31, 2006, compared with $144,460 for the comparable prior period. The increase in sales was primarily created by a 10.6% sales increase in our Chemicals & Colorants segment, along with a 5.3% increase in our Crop Protection segment over the comparable period last year.

HEALTH SCIENCES

Net sales for the Health Sciences segment decreased by $79 for the six months ended December 31, 2006, to $82,655, which represents a 0.1% decrease from net sales of $82,734 for the prior period. This decrease was the result of a decrease from one specific generic product of $7,363 due to its normal selling pattern. The decrease was mostly offset by increases in pharmaceutical intermediate sales of $2,492 and foreign sales increases of $4,939 over the same period last year.

CHEMICALS & COLORANTS

Net sales for the Chemicals & Colorants segment were $57,385 for the six months

ended December 31, 2006, compared to $51,877 for the prior period. This increase of $5,508, or 10.6%, over the prior period is primarily attributable to an increase in the number of products being offered by our foreign subsidiaries. Sales of Chemicals & Colorants by our foreign subsidiaries for the six months ended December 31, 2006 increased by $4,845 over the comparable prior year period. One customer within our color-pigment and pigment-intermediate business, whose contract expired in fiscal 2006, purchased $3,058 during the six months ended December, 2005 as compared to zero in the current period. This reduction was more than offset by increased sales of coatings of $4,360 and Agricultural intermediates of $1,822 over the prior period.

CROP PROTECTION

Net sales for the Crop Protection segment increased to $10,371 for the six months ended December 31, 2006, an increase of $522, or 5.3%, over net sales of $9,849 for the prior period. The increase in net sales was mainly attributable to the launch of our Asulam product of $1,702 which was offset by decreases in three other products of $1,019 due to the unseasonable dry weather conditions, particularly in the southern U.S. region.

GROSS PROFIT

Gross profit increased by $1,482 to $25,453 (16.9% of net sales) for the six months ended December 31, 2006, as compared to $23,971 (16.6% of net sales) for the prior period. The gross profit of each segment was negatively affected by the direct allocation of certain freight and storage costs in the six months ended December 31, 2006 that had been reported as unallocated in prior years. The Company's overall gross profit and margin were not affected but the segmental comparisons to last year have been affected.

HEALTH SCIENCES

Health Sciences' gross profit of $15,415 for the six months ended December 31, 2006, was $850 or 5.2% lower than the prior year comparable period. This decrease in gross profit is attributable to the expected decrease in sales of one particular product in the generics product group as described above which resulted in a $595 decline in gross profit. The balance of the gross profit shortfall can be mainly attributed to the direct allocation of certain freight and storage charges not included in last year's comparable period.

CHEMICALS & COLORANTS

Gross profit for the six months ended December 31, 2006 decreased by $495, or 6.1%, compared to the prior period. The gross margin percentage was 13.2% for the six months ended December 31, 2006 compared to 15.6% for the prior period primarily due to the direct allocation of certain freight and storage charges not included in last year's comparable period. The foreign subsidiaries contributed $572 or 45% more gross profit for the six months ended

December 31, 2006 as compared to the prior period. Additionally, the coating products reported an increase of $545 due to the sales increase previously mentioned above over the same period in the prior year.

CROP PROTECTION

Gross profit for the Crop Protection segment increased to $2,440 for the six months ended December 31, 2006, versus $1,938 for the prior period, an increase

of $502 or 25.9%. Gross margin for the period was 23.5% compared to the prior period gross margin of 19.7%. The primary reason for the increase in gross profit was due to the launch of the Asulam product. The gross profit was also negatively affected by $278 related to the sales decline in the three products discussed earlier, which was mostly offset by lower costs to maintain our EPA registered products of $233.

UNALLOCATED FREIGHT AND STORAGE COSTS

Unallocated cost of sales were $0 for the six months ended December 31, 2006 compared to $2,325 in the prior period. As a result of certain system improvements, certain freight and storage costs which were not able to be identified to a particular segment in the prior fiscal years, have now been included within the segments. Therefore, there are no unallocated freight and storage costs in the current period. Total Company gross profit and margin were not affected by this allocation. This revision will affect the comparison of the segments' gross profits, however.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") decreased by $775, or 3.9% to $19,244 for the six months ended December 31, 2006 compared to $20,019 for the prior period. As a percentage of sales, SG&A decreased to 12.8% for the six months ended December 31, 2006 versus 13.9% for the prior period. The decrease in SG&A relates primarily to a legal settlement charge recorded in the prior year of $537 and lower operating expenses of $1,027 resulting from the sale of one of our subsidiaries in August 2005. These decreases were partially offset by the increase in operating expenses of our foreign businesses to support their increased marketing efforts of $900.

OPERATING INCOME

For the six months ended December 31, 2006, operating income was $6,209 compared to $3,952 in the prior period, an increase of $2,257 or 57.1%. This increase was due to the overall increase in gross profit of $1,482 and the $775 decrease in SG&A expenses.

INTEREST AND OTHER INCOME (EXPENSE)

Interest and other income (expense) was $88 for the six months ended December 31, 2006, which represents a decrease of $1,029 from the prior period. This decrease is primarily attributable to a decrease of $407 regarding a government subsidy paid annually for doing business in a free trade zone in Shanghai, China, settlement of an anti-dumping claim of $330 and increased realized and unrealized foreign exchange losses of $278.

PROVISION FOR INCOME TAXES

The effective tax rate for the six months ended December 31, 2006 increased to 33.2% from 30.0% 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 of one of the subsidiaries forming part of the former Institutional Sanitary Supplies segment have been recorded as discontinued operations in the accompanying consolidated statements of income. The net loss from discontinued operations was $0 and $27 for the six months ended December 31, 2006 and 2005, respectively. The net loss in last year's period included a loss on the sale of certain assets of 0$22, net of income taxes.

THREE MONTHS ENDED DECEMBER 31, 2006 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2005

NET SALES BY SEGMENT
Three months ended December 31,

	2006		2005		Comparison 2006 Over/(Under) 2005	
Segment	Net sales	% of total	Net sales	% of total	$ change	% change
Health Sciences	$40,151	53.0%	$38,058	54.8%	$2,093	5.5%
Chemicals & Colorants	28,543	37.8	25,729	37.0	2,814	10.9
Crop Protection	6,992	9.2	5,680	8.2	1,312	23.1
Net sales	$75,686	100.0%	$69,467	100.0%	$6,219	9.0%

GROSS PROFIT BY SEGMENT
Three months ended December 31,

	2006		2005		Comparison 2006 Over/(Under) 2005	
Segment	Gross profit	% of sales	Gross profit	% of sales	$ change	% change
Health Sciences	$ 7,198	17.9%	$ 7,432	19.5%	$ (234)	(3.1)%
Chemicals & Colorants	3,711	13.0	4,004	15.6	(293)	(7.3)
Crop Protection	1,653	23.6	1,282	22.6	371	28.9
Segment gross profit	12,562	16.6	12,718	18.3	(156)	(1.2)%
Freight and storage costs (1)	--	--	(1,250)	(1.8)	1,250	(100.0)%
Gross profit	$12,562	16.6%	$11,468	16.5%	$1,094	9.5%

(1) Prior to July 2006, certain freight and storage costs were not able to be allocated to the segments. Effective July 2006, as a result of certain system improvements, all freight and storage costs are allocated to a particular segment. Therefore, the unallocated portion of certain freight and storage costs

for the six months ended December 31, 2006 have now been identified to the segments as presented above. Total Company gross profit and margin were not affected by this change in allocation of costs. However, the comparison of gross profit by segment will be affected by the change in allocation of these costs.

The Company does not allocate assets by segment. 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.

NET SALES

Net sales increased $6,219 or 9.0%, to $75,686 for the three months ended December 31, 2006, compared with $69,467 for the comparable prior period. We reported sales increases in all of our segments as explained below.

HEALTH SCIENCES

Net sales for the Health Sciences segment increased by $2,093 for the three months ended December 31, 2006, to $40,151, which represents a 5.5% increase from net sales of $38,058 for the prior period. The sales increase from the prior period is directly attributable to an increase of foreign business of $3,811 and an increase in our pharmaceutical intermediates and nutritional businesses of $1,313 and $420 respectively. These increases in sales were partially offset by a decrease from one specific generic product of $3,481 due to its normal selling pattern.

CHEMICALS & COLORANTS

Net sales for the Chemicals & Colorants segment were $28,543 for the three months ended December 31, 2006, compared to $25,729 for the prior period. This increase of $2,814, or 10.9%, over the prior period is primarily attributable to an increase of $2,927 from our foreign business. One customer within our color-pigment and pigment-intermediate business purchased $1,359 less product during the three months ended December 31, 2006 due to the expiration of their contract. This reduction was more than offset by an increase over the prior period in domestic sales of the coatings, agricultural intermediates and pigment intermediates product families.

CROP PROTECTION

Net sales for the Crop Protection segment increased to $6,992 for the three months ended December 31, 2006, an increase of $1,312, or 23.1%, over net sales of $5,680 for the prior year. The increase in net sales was primarily attributable to the launch of the Asulam product of $1,603 which was partially offset by an insecticide used on peanuts which recorded $339 less sales due to unseasonably dry weather conditions, particularly in the Southern U.S. region.

GROSS PROFIT

Gross profit increased by $1,094 to $12,562 (16.6% of net sales) for the three months ended December 31, 2006, as compared to $11,468 (16.5% of net sales) for the prior period. The gross profit of each segment was negatively affected by the direct allocation of certain freight and storage costs in the three months ended December 31, 2006 that had been reported as unallocated in prior years. The Company's overall gross profit and margin were not affected but the segmental comparisons to last year have been affected.

HEALTH SCIENCES

Health Sciences' gross profit of $7,198 for the three months ended December 31, 2006, was $234 or 3.1% lower than the prior period. This decrease in gross profit is directly attributable to the expected decrease in sales of one particular product in the generic product group which was described above which resulted in a $334 decline in gross profit. The balance of the gross profit shortfall can be attributed to the direct allocation of certain freight and storage charges in the current period which were not included in last year's comparable period.

CHEMICALS & COLORANTS

Gross profit for the three months ended December 31, 2006 decreased by $293, or 7.3%, from the prior period. The gross margin percentage was 13.0% for the three months ended December 31, 2006 compared to 15.6% for the prior period. The primary reason for the decline in gross profit and margin is due to the allocation of certain freight and storage charges in the current period which were not included in last year's comparable period. The foreign subsidiaries contributed $491 or 114% more gross profit for the three months ended December 31, 2006 as compared to the prior period. Additionally, the coating products reported an increase of $309 due to the healthy sales increase previously discussed over the same period in the prior year.

CROP PROTECTION

Gross profit for the Crop Protection segment increased to $1,653 for the three months ended December 31, 2006, versus $1,282 for the prior period, an increase of $371 or 28.9%. Gross margin for the period was 23.6% compared to the prior period gross margin of 22.6%. The primary reason for the increase in gross profit was due to the launch of the Asulam product. The gross profit was also negatively affected by the sales decline in the three products discussed earlier of $176.

UNALLOCATED FREIGHT AND STORAGE COSTS

Unallocated cost of sales were $0 for the three months ended December 31, 2006 compared to $1,250 in the prior period. As a result of certain system improvements, certain freight and storage costs which were not able to be identified to a particular segment in prior periods, have now been included within the segments. Therefore, there are no unallocated freight and storage costs in the current period. Total Company gross profit and margin were not affected by this allocation. This revision will affect the comparison of the segments' gross profits, however.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") increased $183, or 1.9%, to $9,840 for the three months ended December 31, 2006 compared to $9,657 for the prior period. As a percentage of sales, SG&A was 13.0% for the three months ended December 31, 2006 versus 13.9% for the prior period. The increase in SG&A relates primarily to the increase in operating expenses of our foreign businesses to support their increased marketing efforts of $661, which was partially offset by lowered operating expenses of $478 in our domestic operations including the sale of a Sanitary Supply subsidiary in August 2005.

OPERATING INCOME

For the three months ended December 31, 2006, operating income was $2,722 compared to $1,811 in the prior period, an increase of $911 or 50.3%. This increase was due to the overall increase in gross profit of $1,094 partially offset by the $183 increase in SG&A expenses.

INTEREST AND OTHER INCOME (EXPENSE)

Interest and other income (expense) was ($100) for the three months ended December 31, 2006, which represents a decrease of $458 from the prior period. The decrease is primarily attributable to the increased realized and unrealized foreign exchange losses of $447. The devaluation of the U.S. dollar as compared to the Euro and Chinese Yuan as of December 31, 2006 resulted in a significant portion of the increase in unrealized foreign exchange loss compared to the prior year's quarter.

PROVISION FOR INCOME TAXES

The effective tax rate for the three months ended December 31, 2006 was 33.5% as compared to 28.7% 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.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

At December 31, 2006, we had $30,608 in cash, $9,632 in short-term investments and no short-term bank loans.

Our cash position at December 31, 2006 decreased $3,124 from the amount at June 30, 2006. Operating activities provided cash of $3,006, primarily from net income of $4,206, partially offset by a net decrease caused by changes in assets and liabilities.

Investing activities for the six months ended December 31, 2006 used cash of $6,928 primarily related to purchases of investments of $6,222 and purchases of property and equipment and intangibles of $339 and $401, respectively.

Financing activities for the six months ended December 31, 2006 provided cash of $175 primarily from exercises of stock options.

CREDIT FACILITIES

We have credit facilities with certain foreign financial institutions. These facilities provide us with a line of credit of $19,470, of which $0 was utilized as of December 31, 2006 leaving $19,470 of this facility unused. We are not subject to any financial covenants under these arrangements.

We have a revolving credit facility with a domestic financial institution which expires June 30, 2007 and provides for available credit of $10,000. At December 31, 2006, we had utilized $570 in letters of credit, leaving $9,430 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 December 31, 2006.

WORKING CAPITAL OUTLOOK

Working capital was $109,519 at December 31, 2006 versus $104,707 at June 30, 2006. The increase in working capital was attributable to various factors including net income during the period. We continually evaluate possible acquisitions of or investments in businesses that are complementary to our own, and such transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, borrowing capacity and access to the equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures and the anticipated continuation of semi-annual cash dividends. Further, we may obtain additional credit facilities to enhance our liquidity.

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 December 31, 2006, we had no significant obligations for capital expenditures. At December 31, 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	After 5 Years
Operating leases	$ 5,675	$ 1,619	$2,634	$1,348	$74
Commercial letters of credit	675	675	--	--	--
Standby letters of credit	181	181	--	--	--
Unconditional purchase obligations	67,823	67,696	127	--	--
Total	$74,354	$70,171	$2,761	$1,348	$74

Other significant commitments and contingencies include the following:

1. Our non-qualified deferred compensation plans are intended to provide certain executives with supplemental retirement benefits beyond our

401(k) plan, as well as to permit additional deferral of a portion of their compensation. All compensation deferred under the plans is held by us in a grantor trust, which is considered our asset. We had a liability under the plan, included in long-term liabilities, of $3,318, and the assets held by the grantor trust, included in other assets, amounted to $2,807 as of December 31, 2006.

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

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

RELATED PARTY TRANSACTIONS

Two of our directors are affiliated with law firms that serve as our legal counsel on various corporate matters. For the three months ended December 31, 2006 and 2005, we incurred legal fees of $183 and $157, 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 $9,632 at December 31, 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 $963 as of December 31, 2006. However, actual results may differ.

FOREIGN CURRENCY EXCHANGE RISK

In order to reduce the risk of foreign currency exchange rate fluctuations, we hedge some of our transactions denominated in a currency other than the functional currencies applicable to each of our various entities. The instruments used for hedging are short-term foreign currency contracts (futures). The changes in market value of such contracts have a high correlation to price changes in the currency of the related hedged transactions. At December 31, 2006, we had foreign currency contracts outstanding that had a notional amount of $19,070. 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 December 31, 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 December 31, 2006, was $(138). The gains or losses on the inter-company loan due to changes in foreign currency rates will be offset by the gains or losses on the swap in the accompanying consolidated statements of income. Since our interest rate swap qualifies as a hedging activity, the change in its fair value, amounting to $(98) and $54 for the six months ended December 31, 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 December 31, 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 December 31, 2006, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, amounted to $5,668. However, actual results may differ.

INTEREST RATE RISK

Due to our financing, investing and cash-management activities, we are subject to market risk from exposure to changes in interest rates. We utilize a balanced mix of debt maturities along with both fixed-rate and variable-rate debt to manage our exposure to changes in interest rates. Our financial instrument holdings at year-end were analyzed to determine their sensitivity to interest rate changes. In this sensitivity analysis, we used the same change in interest rate for all maturities. All other factors were held constant. If there is an adverse change in interest rates 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 December 31, 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 six months ended December 31, 2006 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company held an annual meeting of its shareholders on December 7, 2006. Two matters were voted on at the annual meeting, as follows:

a. The election of nominees Leonard S. Schwartz, Robert A. Wiesen, Stanley H. Fischer, Albert L. Eilender, Ira S. Kallem, Hans C. Noetzli and William N. Britton as directors of the Company until the next

annual meeting was voted on at the annual meeting.

The votes were cast for this matter as follows:

	FOR	WITHHELD/ABSTAIN
Leonard S. Schwartz	16,966	5,132
Robert A. Wiesen	15,530	6,568
Stanley H. Fischer	16,992	5,106
Albert L. Eilender	21,600	498
Ira S. Kallem	21,601	497
Hans C. Noetzli	21,599	499
William N. Britton	21,589	509

Each nominee was elected a director of the Company.

b. Ratification of the selection of BDO Seidman, LLP as the Company's independent accountants for the current fiscal year.

The votes were cast for this matter as follows:

FOR	AGAINST	ABSTAIN
21,992	93	13

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 Chairman, 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 Chairman, 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 February 8, 2007 BY /s/ Douglas Roth

Douglas Roth, Chief Financial Officer

DATE February 8, 2007 BY /s/ Leonard S. Schwartz

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