

ACETO CORP  
Form 10-K  
August 29, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2013  
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 (I.R.S. Employer Identification  
incorporation or organization) Number)

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

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

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

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

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

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

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

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

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

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submit and post such files). Yes  No

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

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

Large accelerated filer

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 aggregate market value of the voting stock of the Company held by non-affiliates of the Company based on the closing price of the common stock on December 31, 2012 as reported on the NASDAQ Global Select Market, was approximately \$258,297,140.

The Registrant has 28,073,040 shares of common stock outstanding as of August 23, 2013.

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

ACETO CORPORATION AND SUBSIDIARIES  
FORM 10-K  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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PART I

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

This Annual Report on Form 10-K contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Annual Report on Form 10-K 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,” “intend,” “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 may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 1A of this Annual Report on Form 10-K.

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 Annual Report on Form 10-K, all dollar amounts are expressed in thousands, except share prices and per-share amounts.

Item 1. Business

General

Aceto Corporation, together with its consolidated subsidiaries, are referred to herein collectively as “Aceto”, “the Company”, “we”, “us”, and “our”, unless the context indicates otherwise. Aceto was incorporated in 1947 in the State of New York. We are a global leader in the marketing, sales and distribution of pharmaceutical intermediates and active ingredients, finished dosage form generics, nutraceutical products, agricultural protection products and specialty chemicals. Our business is organized along product lines into three principal segments: Human Health, Pharmaceutical Ingredients and Performance Chemicals. In fiscal 2012, we reconfigured and renamed our three business segments to more accurately reflect the scope of its business activities.

We believe our main 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. No single supplier accounted for as much as 10% of purchases in fiscal 2013 and 2012.

Strategic relationships with manufacturers of pharmaceutical, nutraceutical, agricultural and specialty chemical products in the United States and internationally serve as a valuable resource to Aceto customers, enabling them to procure vital chemical based products necessary for their diverse and complex applications. A strong global technical network differentiates Aceto from commodity distribution companies. With regional managers in the United States, Europe and Asia, we provide regulatory support and quality assurance for customers and suppliers worldwide. Our regulatory network ensures that the product quality is manufactured to applicable required standards and conforms to customer specifications for its intended end use.

Our presence in China, Germany, France, the Netherlands, Singapore, India, Hong Kong, the United Kingdom and the United States, along with strategically located warehouses worldwide, enable us to respond quickly to demands from customers worldwide, assuring that a consistent, high-quality supply of pharmaceutical, nutraceutical, specialty chemicals and agricultural protection products are readily accessible. We are able to offer our customers competitive pricing, continuity of supply, and quality control. Highly experienced staff, many of whom are technically trained, enable Aceto to meet individual customer needs. Our marketing, sales, regulatory and technical professionals possess an intimate knowledge of worldwide sources of supply and product applications, as well as statutory and technical requirements. Many of our professionals are respected leaders in their industry, bringing 25 or more years of experience to customer applications. This longevity has fostered confidence and loyalty among customers and suppliers.

Aceto partners with customers during the product development process, creating new applications for existing products, as well as new product sourcing opportunities. We offer solutions for product and production challenges, while assisting with quality assurance, government approvals and compliance. All of these value-added services allow Aceto's customers to be more responsive to their end use customers and more competitive in the global marketplace. We believe our 60 plus years of experience, our reputation for reliability and stability, and our long-term relationships with suppliers have fostered loyalty among our customers.

We remain confident about our business prospects. We anticipate organic growth through our plans to introduce new products for finished dosage form generic drugs, the further globalization of our nutraceutical business, the continued globalization of our Performance Chemicals business, the expansion of our agricultural protection products by investing in product lines and intellectual property, the continued enhancement of our sourcing operations in China and India, and the steady improvement of our quality assurance and regulatory capabilities.

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

Other than product rights and license agreements for certain of our finished dosage form generic products which are part of our Human Health business and U.S. Environmental Protection Agency (EPA) registrations for our Performance Chemicals, we hold no patents, franchises or concessions that we consider material to our operations.

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

#### Human Health

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. ("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. 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. This globally structured business

then became the model for all of our business segments, providing international reach and perspective for our customers.

#### Pharmaceutical Ingredients

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

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As the use of generic drugs has grown significantly over the years, we believe Aceto's presence in this market also increased, both domestically and internationally. We supply APIs to many of 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 Abbreviated New Drug Application (ANDA) for U.S. Food and Drug Administration (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.

#### Performance Chemicals

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 to 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 July 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, is expected to grow at an annual rate of 5.1%.



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.

## Long-lived Assets

Long-lived assets by geographic region as of June 30, 2013, 2012, and 2011 were as follows:

	Long-lived assets		
	2013	2012	2011
United States	\$ 80,870	\$ 85,650	\$ 90,955
Europe	2,684	2,388	2,779
Asia-Pacific	2,213	2,413	2,644
Total	\$ 85,767	\$ 90,451	\$ 96,378

## Suppliers and Customers

We purchase products from specifically approved plants and supply products to customers from plants whose products they have approved. We regularly visit our suppliers to evaluate them not only on the basis of ability to deliver satisfactory products on a timely and cost efficient basis, but also on their commitment to operate in a safe and environmentally responsible manner. During the fiscal years ended June 30, 2013 and 2012 approximately 68% and 69%, respectively, of our purchases were from Asia and approximately 13% for each year, were from Europe.

Our customers are primarily located throughout the United States, Europe and Asia. They include a wide range of companies in the industrial chemical, agricultural, and human health and pharmaceutical industries, and range from small trading companies to Fortune 500 companies. During fiscal years 2013 and 2012, sales made to customers in the United States totaled \$291,433 and \$254,368 respectively. Sales made to customers outside the United States during fiscal years 2013 and 2012 totaled \$208,257 and \$190,020, respectively, of which, approximately 62% and 59%, respectively, were to customers located in Europe. No single product or customer accounted for as much as 10% of net sales in fiscal years 2013, 2012 or 2011.

## Competition

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

## Environmental and Regulatory

We are subject to extensive regulation by federal, state and local agencies in the countries in which we do business. Of particular importance is the FDA in the U.S. It has jurisdiction over testing, safety, effectiveness, manufacturing, labeling, marketing, advertising and post-marketing surveillance of our Human Health products.

Certain of our products involve the use, storage and transportation of toxic and hazardous materials. The Company's operations are subject to extensive laws and regulations relating to the storage, handling, transportation and discharge of materials into the environment and the maintenance of safe working conditions. We have designed safety

procedures to comply with the standards prescribed by federal, state and local regulations.

Our global quality assurance network, with regional managers in the U.S., Europe and Asia, ensures that the quality of a product meets both its specifications and intended use. Our technical network performs a service that allows Aceto to source and qualify APIs, pharmaceutical intermediates, finished dosage form generics, agricultural products, specialty chemicals, and nutraceutical products from around the world. It also provides substantial regulatory support and technical assistance to manufacturers worldwide, enabling them to meet the stringent regulatory guidelines that govern the pharmaceutical, nutraceutical, specialty chemicals and agricultural protection industries.

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.

#### Employees

At June 30, 2013, we had 234 employees, none of whom were covered by a collective bargaining agreement.

#### Available information

We file annual, quarterly, and current reports, proxy statements, and other information with the U.S. Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549.

You may call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly, and current reports, proxy statements, and other information that issuers (including Aceto) file electronically with the SEC. The SEC's website is [www.sec.gov](http://www.sec.gov).

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

#### Item 1A. Risk factors

You should carefully consider the following risk factors and other information included in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial could also impair our business operations. If any of the following risk factors occur, our reputation, business, financial condition, operating results and cash flows could be materially adversely affected.

If we are unable to compete effectively with our competitors, many of which have greater market presence and resources than us, our reputation, business, financial condition, operating results and cash flows could be materially adversely affected.

Our financial condition and operating results are directly related to our ability to compete in the intensely competitive global chemical and pharmaceutical markets. We face intense competition from global and regional distributors of chemical and pharmaceutical products, many of which are large chemical and pharmaceutical manufacturers as well as distributors. Many of these companies have substantially greater resources than us, including, among other things,

greater financial, marketing and distribution resources. We cannot assure you that we will be able to compete successfully with any of these companies. In addition, increased competition could result in price reductions, reduced margins and loss of market share for our products, all of which could materially adversely affect our reputation, business, financial condition, operating results and cash flows.

Our distribution operations of APIs concentrate on generic products and therefore are subject to the risks of the generic pharmaceutical industry.

The ability of our business to provide consistent, sequential quarterly growth is affected, in large part, by our participation in the launch of new products by generic manufacturers and the subsequent advent and extent of competition encountered by these products. This competition can result in significant and rapid declines in pricing with a corresponding decrease in net sales. Our margins can also be materially adversely affected by the risks inherent to the generic industry.

Our pipeline of products in development may be subject to regulatory delays at the FDA. Delays in key products could have material adverse effects on our reputation, business, financial condition, operating results and cash flows.

Our future revenue growth and profitability are partially dependent upon our ability to introduce new products on a timely basis in relation to our competitors' product introductions. Our failure to do so successfully could materially adversely affect our reputation, business, financial condition, operating results and cash flows. Many products require FDA approval or the equivalent regulatory approvals in our overseas markets prior to being marketed. The process of obtaining FDA/regulatory approval to market new and generic pharmaceutical products is rigorous, time-consuming, costly and largely often unpredictable. We may be unable to obtain requisite FDA approvals on a timely basis for new generic products.

If we experience product recalls, we may incur significant and unexpected costs, and our business reputation could be adversely affected.

We may be exposed to product recalls and adverse public relations if our products are alleged to cause injury or illness, or if we are alleged to have violated governmental regulations. A product recall could result in substantial and unexpected expenditures, which would reduce operating profit and cash flow. In addition, a product recall may require significant management attention. Product recalls may hurt the value of our brands and lead to decreased demand for our products. Product recalls also may lead to increased scrutiny by federal, state or international regulatory agencies of our operations and increased litigation and could have a material adverse effect on our reputation, business, financial condition, operating results and cash flows.

Dependence on a limited number of suppliers of Human Health and Pharmaceutical Ingredients products could lead to delays, lost revenue or increased costs.

Our future operating results may depend substantially on our suppliers' ability to timely provide Human Health and Pharmaceutical Ingredients products in connection with ANDAs and such suppliers' ability to supply us with these ingredients or materials in sufficient volumes to meet our production requirements. A number of the ingredients or materials that we use are available from only a single or limited number of qualified suppliers, and may be used across multiple product lines. If there is a significant increase in demand for an ingredient or other material resulting in an inability to meet demand, if an ingredient or material is otherwise in short supply or becomes wholly unavailable, or if a supplier has a quality issue, we may experience delays or increased costs in obtaining that ingredient or material. If we are unable to obtain sufficient quantities of ingredients or other necessary materials, we may experience production delays in our supply.

Each of the following could also interrupt the supply of, or increase the cost of, ingredients or other materials:

- an unwillingness of a supplier to supply ingredients or other materials to us;
- consolidation of key suppliers;
- failure of a key supplier's business process;
- a key supplier's inability to access credit necessary to operate its business; or

failure of a key supplier to remain in business, to remain an independent supplier, or to adjust to market conditions.

Any interruption in the supply of or increase in the cost of ingredients or other materials provided by single or limited source suppliers could have a material adverse effect on our reputation, business, financial condition, operating results and cash flows.

Our success in our Human Health segment is linked to the size and growth rate of the generic pharmaceutical, vitamin, mineral and supplement markets and an adverse change in the size or growth rate of these markets could have a material adverse effect on us.

An adverse change in size or growth rate of the generic pharmaceutical, vitamin, mineral and supplement markets could have a material adverse effect on us. Underlying market conditions are subject to change based on economic conditions, consumer preferences and other factors that are beyond our control, including media attention and scientific research, which may be positive or negative.

Healthcare reform and a reduction in the reimbursement levels by governmental authorities, HMOs, MCOs or other third-party payors could materially adversely affect our business, financial condition, operating results and cash flows.

Third party payors increasingly challenge pricing of pharmaceutical products. The trend toward managed healthcare, the growth of organizations such as HMOs and MCOs and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and a reduction in product demand. Such cost containment measures and healthcare reform could affect our ability to sell our products and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our future results could be materially affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our revenue stream and related gross profit is difficult to predict.

Our revenue stream is difficult to predict because it is primarily generated as customers place orders and customers can change their requirements or cancel orders. Many of our sales orders are short-term and could be cancelled at any time. As a result, much of our revenue is not recurring from period to period, which contributes to the variability of our results from period to period. In addition, certain of our products carry a higher gross margin than other products, particularly in the Human Health and Pharmaceutical Ingredients segments. Reduced sales of these higher margin products could have a material adverse effect on our operating results. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

Changes to the industries and markets that Aceto serves could have a material adverse effect on our business, financial condition, operating results and cash flows.

The business environment in which we operate remains challenging. Portions of our operations are subject to the same business cycles as those experienced by automobile, housing, and durable goods manufacturers. Our demand is largely derived from the demand for our customers' products, which subjects us to uncertainties related to downturns in our customers' business and unanticipated customer production shutdowns or curtailments. A material downturn in sales or gross profit due to weak end-user markets and loss of customers could have a material adverse effect on our business, financial condition, operating results and cash flows.

Our operating results could fluctuate in future quarters, which could adversely affect the trading price of our common stock.

Our operating results could fluctuate on a quarterly basis as a result of a number of factors, including, among other things, the timing of contracts, orders, the delay or cancellation of a contract, and changes in government regulations. Any one of these factors could have a significant impact on our quarterly results. In some quarters, our revenue and operating results could fall below the expectations of securities analysts and investors, which would likely cause the trading price of our common stock to decline.

We have significant inventories on hand.

The Company maintains significant inventories. Any significant unanticipated changes in future product demand or market conditions, including, among other things, the current uncertainty in the global market, could materially adversely affect the value of inventory and our business, financial condition, operating results and cash flows.

Failure to obtain products from outside manufacturers could adversely affect our ability to fulfill sales orders to our customers.

We rely on outside manufacturers to supply products for resale to our customers. Manufacturing problems, including, among other things, manufacturing delays caused by plant shutdowns, regulatory issues, damage or disruption to raw material supplies due to weather, including, among other things, any potential effects of climate change, natural disaster or fire, could occur. If such problems occur, we cannot assure that we will be able to deliver our products to our customers profitably or on time.

Increases in the cost of shipping with our third-party shippers could have a material adverse effect on our business, financial condition, operating results and cash flows.



Shipping is a significant expense in the operation of our business. Accordingly, any significant increase in shipping rates could have an adverse effect on our operating results. Similarly, strikes or other service interruptions by those shippers could cause our operating expenses to rise and adversely affect our ability to deliver products on a timely basis.

We could incur significant uninsured environmental and other liabilities inherent in the chemical /pharmaceutical distribution industry that could materially adversely affect our business, financial condition, operating results and cash flows.

The business of distributing chemicals and pharmaceuticals is subject to regulation by numerous federal, state, local, and foreign governmental authorities. These regulations impose liability for loss of life, damage to property and equipment, pollution and other environmental damage that could occur in our business. Many of these regulations provide for substantial fines and remediation costs in the event of chemical spills, explosions and pollution. While we believe that we are in substantial compliance with all current laws and regulations, we can give no assurance that we will not incur material liabilities that are not covered by insurance or exceed our insurance coverage or that such insurance will remain available on terms and at rates acceptable to us. Additionally, if existing environmental and other regulations are changed, or additional laws or regulations are passed, the cost of complying with those laws could be substantial, thereby materially adversely affecting our business, financial condition, operating results and cash flows.

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.

Our subsidiary, Arsynco, has environmental remediation obligations in connection with its former manufacturing facility in Carlstadt, New Jersey. Estimates of how much it would cost to remediate environmental contamination at this site have increased since the facility was closed in 1993. If the actual costs are significantly greater than estimated, it could have a material adverse effect on our financial condition, operating results and cash flows.

In March 2006, 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. 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.

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

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

that our resources will be adequate to meet the costs of regulatory compliance or that the economic benefit of complying with the requirement will exceed our cost.

Incidents related to hazardous materials could materially adversely affect our reputation, business, financial condition, operating results and cash flows.

Portions of our operations require the controlled use of hazardous materials. Although we are diligent in designing and implementing safety procedures to comply with the standards prescribed by federal, state, and local regulations, the risk of accidental contamination of property or injury to individuals from these materials cannot be completely eliminated. In the event of such an incident, we could be liable for any damages that result, which could materially adversely affect our reputation, business, financial condition, operating results and cash flows.

We are also continuing to expand our business in China and India, where environmental, health and safety regulations are still early in their development. As a result, we cannot determine how these laws will be implemented and the impact of such regulation on the Company.

Violations of cGMP and other government regulations could have a material adverse effect on our reputation, business, financial condition and results of operations.

All facilities and manufacturing techniques used to manufacture pharmaceutical products for clinical use or for commercial sale in the United States and other Aceto markets must be operated in conformity with current Good Manufacturing Practices (“cGMP”) regulations as required by the FDA and other regulatory bodies. Our suppliers’ facilities are subject to scheduled periodic regulatory and customer inspections to ensure compliance with cGMP and other requirements applicable to such products. A finding that we or one or more of our suppliers had materially violated these requirements could result in one or more regulatory sanctions, loss of a customer contract, disqualification of data for client submissions to regulatory authorities and a mandated closing of our suppliers’ facilities, which in turn could have a material adverse effect on our reputation, business, financial condition, operating results and cash flows.

Our business could give rise to product liability claims that are not covered by insurance or indemnity agreements or exceed insurance policy or indemnity agreement limitations.

The marketing, distribution and use of chemical and pharmaceutical products involves substantial risk of product liability claims. We could be held liable if any product we or our partners develop or distribute causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. A successful product liability claim that we have not insured against, that exceeds our levels of insurance or that we are not indemnified for, may require us to pay a substantial amount of damages. In the event that we are forced to pay such damages, this payment could have a material adverse effect on our reputation, business, financial condition, operating results and cash flows.

We source many of our products in China and changes in the political and economic policies of China’s government could have a significant impact upon the business we may be able to conduct in China and our financial condition, operating results and cash flows.

Our business operations could be materially adversely affected by the current and future political environment in China. China has operated as a socialist state since the mid-1900s and is controlled by the Communist Party of China. The Chinese government exerts substantial influence and control over the manner in which companies, such as ours, must conduct business activities in China. China has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of China has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, through regulation and state ownership. Our ability to conduct business in China could be adversely affected by changes in Chinese laws and regulations, including, among others, those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of China has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of China will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

China’s laws and regulations governing our current business operations in China are sometimes vague and uncertain. Any changes in such laws and regulations could materially adversely affect our business, financial condition, operating results and cash flows.

China's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of China's laws and regulations, including among others, the laws and regulations governing the conduct of business in China, or the enforcement and performance of arrangements with customers and suppliers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new laws or regulations may have on our business in China. If the relevant authorities find that we are in violation of China's laws or regulations, they would have broad discretion in dealing with such a violation, including, among other things: (i) levying fines and (ii) requiring that we discontinue any portion or all of our business in China.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign businesses conducting business in China. However, the trend of legislation over the last 20 plus years has significantly enhanced the protection of foreign businesses in China. There can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting China's political, economic or social life, will not affect China's government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

Our ability to compete in certain markets we serve is dependent on our ability to continue to expand our capacity in certain offshore locations. However, as our presence in these locations increases, we are exposed to risks inherent to these locations which could materially adversely affect our business, financial condition, operating results and cash flows.

A significant portion of our outsourcing has been shifted to India. As such, we are exposed to the risks inherent to operating in India including, among others, (1) a highly competitive labor market for skilled workers which may result in significant increases in labor costs as well as shortages of qualified workers in the future, (2) the possibility that the U.S. federal government or the European Union may enact legislation which may disincentivize customers from producing in their local countries which would reduce the demand for the services we provide in India and could materially adversely affect our business, financial condition, operating results and cash flows.

Fluctuations in foreign currency exchange rates could materially adversely affect our business, financial condition, operating results and cash flows.

A substantial portion of our revenue is denominated in currencies other than the U.S. dollar because certain of our foreign subsidiaries operate in their local currencies. Our business, financial condition, operating results and cash flows therefore could be materially adversely affected by fluctuations in the exchange rate between foreign currencies and the U.S. dollar.

Failure to comply with U.S. or non-U.S. laws regulating trade, such as the U.S. Foreign Corrupt Practices Act, could result in adverse consequences, including fines, criminal sanctions, or loss of access to markets.

We are subject to the U.S. Foreign Corrupt Practices Act ("FCPA"), which, among other things, prohibits corporations and individuals from paying, offering to pay, or authorizing the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. While our employees and agents are required to comply with these laws, we cannot assure you that our internal policies and procedures will always protect us from violations of these laws, despite our commitment to legal compliance and corporate ethics. The occurrence or allegation of these types of events could materially adversely affect our reputation, business, financial condition, operating results and cash flows.

Tax legislation and assessments by various tax authorities could be materially different than the amounts we have provided for in our consolidated financial statements.

We are regularly audited by federal, state, and foreign tax authorities. From time to time, these audits could result in proposed assessments. While we believe that we have adequately provided for any such assessments, future settlements could be materially different than we have provided for and thereby materially adversely affect our earnings and cash flows.

We operate in various tax jurisdictions, and although we believe that we have provided for income and other taxes in accordance with the relevant regulations, if the applicable regulations were ultimately interpreted differently by a taxing authority, we could be exposed to additional tax liabilities. Our effective tax rate is based on our expected geographic mix of earnings, statutory rates, intercompany transfer pricing, and enacted tax rules. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions on a worldwide basis. We believe our tax positions, including, among others, intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business. It is possible that these positions may be challenged by jurisdictional tax authorities and could have a significant impact on our effective tax rate. In addition, from time to time, various legislative initiatives could be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives.

Changes in tax rules could adversely affect our future reported financial results or the way we conduct our business.

Our future reported financial results could be adversely affected if tax or accounting rules regarding unrepatriated earnings change. The Obama administration announced several proposals to reform United States tax rules, including, among others, proposals that could result in a reduction or elimination of the deferral of United States tax on our unrepatriated earnings, potentially requiring those earnings to be taxed at the United States federal income tax rate.

Our business is subject to a number of global economic risks.

From time to time, financial markets in the United States, Europe and Asia have and could experience extreme disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intending to address extreme market conditions that include severely restricted credit and declines in values of certain assets.

An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for our products and result in a decrease in revenue that could have a negative impact on our results of operations. Continued volatility and disruption of financial markets in the United States, Europe and Asia could limit our customers' ability to obtain adequate financing or credit to purchase our products or to pay for outstanding invoices owed to us or to maintain operations, and result in a decrease in revenue or cash collections that could have a material adverse effect on our business, financial condition, operating results and cash flows.

We have a significant amount of debt.

We have a \$64,500 credit facility of which \$28,500 was outstanding at June 30, 2013. This facility expires in December 2015. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on the credit facility, it will be in default. This current debt arrangement requires us to comply with several financial covenants. Our ability to comply with these covenants may be affected by events beyond our control and could result in a default under our credit facility, which could have a material adverse effect on our business, financial condition, operating results and cash flows.

Even if we are able to meet our debt service obligations, the amount of debt we have could adversely affect us by limiting our ability to obtain any necessary financing in the future for working capital, dividend payments, capital expenditures, debt service requirements, or other purposes. It also places us at a disadvantage relative to our competitors who have lower levels of debt, while making us more vulnerable to a downturn in our business or the economy in general. It also requires us to use a substantial portion of our cash to pay principal and interest on our debt, instead of investing those funds in the business.

Our acquisition strategy is subject to a number of inherent risks, including, among other things, the risk that our acquisitions may not be successful.

We continually seek to expand our business through acquisitions of other companies that complement our own and through joint ventures, licensing agreements and other arrangements. Any decision regarding strategic alternatives would be subject to inherent risks, and we cannot guarantee that we will be able to identify the appropriate opportunities, successfully negotiate economically beneficial terms, successfully integrate any acquired business,



retain key employees, or achieve the anticipated synergies or benefits of the strategic alternative selected. Acquisitions can require significant capital resources and divert our management's attention from our existing business. Additionally, we may issue additional shares in connection with a strategic transaction, thereby diluting the holdings of our existing common shareholders, incur debt or assume liabilities, become subject to litigation, or consume cash, thereby reducing the amount of cash available for other purposes.

Any acquisition that we make could result in a substantial charge to our earnings.

We have previously incurred charges to our earnings in connection with acquisitions, and may continue to experience charges to our earnings for any acquisitions that we make, including, among other things, contingent consideration and impairment charges. These costs may also include substantial severance and other closure costs associated with eliminating duplicate or discontinued products, employees, operations and facilities. These charges could have a material adverse effect on our results of operations and they could have a material adverse effect on the market price of our common stock.

The Company could be subject to goodwill impairment charges in the future.

Under U.S. generally accepted accounting principles (“GAAP”), we are required to evaluate goodwill for impairment at least annually. If we determine that the fair value is less than the carrying value, an impairment loss will be recorded in our statement of income. The determination of fair value is a highly subjective exercise and can produce significantly different results based on the assumptions used and methodologies employed. If our projected long-term sales growth rate, profit margins or terminal rate are considerably lower and/or the assumed weighted average cost of capital is considerably higher, future testing may indicate impairment and we would have to record a non-cash goodwill impairment loss in our statement of income.

Our information technology systems could fail to perform adequately or we may fail to adequately protect such information technology systems against data corruption, cyber-based attacks, or network security breaches.

We rely on information technology networks and systems, including the Internet, to process, transmit, and store electronic information. In particular, we depend on our information technology infrastructure to effectively manage its business data, supply chain, logistics, accounting, and other business processes and electronic communications between our personnel and our customers and suppliers. If we do not allocate and effectively manage the resources necessary to build and sustain an appropriate technology infrastructure, our business, financial condition, operating results and cash flows therefore could be materially adversely affected. In addition, security breaches or system failures of this infrastructure can create system disruptions, shutdowns, or unauthorized disclosure of confidential information. If we are unable to prevent such breaches or failures, our operations could be disrupted, or we may suffer financial damage or loss because of lost or misappropriated information.

Our potential liability arising from our commitment to indemnify our directors, officers and employees could materially adversely affect our business, financial condition, operating results and cash flows.

We have committed in our bylaws to indemnify our directors, officers and employees against the reasonable expenses incurred by these persons in connection with any action brought against them in such capacity, except in matters as to which they are adjudged to have breached a duty to us. The maximum potential amount of future payments we could be required to make under this provision is unlimited. While we have “directors and officers” insurance policies that should cover all or some of this potential exposure, we could be adversely affected if we are required to pay damages or incur legal costs in connection with a claim above our insurance limits.

Our business could be materially adversely affected by terrorist activities.

Our business depends on the free flow of products and services through the channels of commerce worldwide. Instability due to military, terrorist, political and economic actions in other countries could materially disrupt our overseas operations and export sales. In both fiscal years 2013 and 2012, approximately 43% of our revenues were attributable to operations conducted abroad and to sales generated from the United States to foreign countries. In addition, in fiscal year 2013, approximately 68% and 13% of our purchases came from Asia and Europe, respectively. In addition, in certain countries where we currently operate or export, intend to operate or export, or intend to expand our operations, we could be subject to other political, military and economic uncertainties, including, among other things, labor unrest, restrictions on transfers of funds and unexpected changes in regulatory environments.

We rely heavily on key executives for our financial performance.

Our financial performance is highly dependent upon the efforts and abilities of our key executives. The loss of the services of any of our key executives could therefore have a material adverse effect upon our financial position and operating results. We do not maintain “key-man” insurance on any of our key executives.

Shortage of qualified and technical personnel in a competitive marketplace may prevent us from growing our business.

We may be unable to hire or retain qualified and technical employees and there is substantial competition for highly skilled employees. If we fail to attract and retain key employees, our business could be adversely impacted.

Litigation could harm our business and our management and financial resources.

Substantial, complex or extended litigation could cause us to incur large expenditures and could distract our management. For example, lawsuits by employees, stockholders, collaborators, distributors, customers, or end-users of our products or services could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes out of court or on favorable terms.

The market price of our stock could be volatile.

The market price of our common stock has been subject to volatility and may continue to be volatile in the future, due to a variety of factors, including, among other things:

quarterly fluctuations in our operating income and earnings per share results  
technological innovations or new product introductions by us or our competitors  
economic conditions  
tariffs, duties and other trade barriers including, among other things, anti-dumping duties  
disputes concerning patents or proprietary rights  
changes in earnings estimates and market growth rate projections by market research analysts  
any future issuances of our common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions, restricted stock/units and the grant or exercise of stock options from time to time

sales of common stock by existing security holders  
loss of key personnel  
securities class actions or other litigation

The market price for our common stock may also be affected by our ability to meet analysts' expectations. Any failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies.

There are inherent uncertainties involved in estimates, judgments and assumptions used in preparing financial statements in accordance with U.S. generally accepted accounting principles. Any changes in the estimates, judgments and assumptions we use could have a material adverse effect on our business, financial condition, operating results and cash flows.

The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with GAAP. Preparing financial statements in accordance with GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change, and any such changes could result in corresponding changes to the reported amounts.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time-to-time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our Annual Report on Form 10-K . Section 404 also requires our independent registered public accounting firm to report on our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, we cannot assure you that we will be able to conclude in the future that we have effective internal controls over financial reporting. If we fail to maintain effective internal controls, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission or NASDAQ. Any such action could adversely affect our financial results and the market price of our common stock and may also result in delayed filings with the Securities and Exchange Commission.

Compliance with changing regulation of corporate governance and public disclosure could result in additional expenses.

Complying with changing laws, regulations and standards relating to corporate governance and public disclosure, including, among others, the Sarbanes-Oxley Act of 2002 and new SEC regulations will require the Company to expend additional resources. We are committed to maintaining the highest standards of corporate governance and public disclosure. As a result, we may be required to continue to invest necessary resources to comply with evolving laws, regulations and standards, and this investment could result in increased expenses and a diversion of management time and attention from revenue-generating activities.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

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. Our global headquarters consists of approximately 48,000 gross square feet and is subject to a mortgage, which at June 30, 2013, had an outstanding balance of \$3,569.

With the Rising acquisition on December 31, 2010, the Company leases approximately 41,000 gross square feet of office space in Allendale, New Jersey. This lease expires in October 2017.

In November 2007, we purchased approximately 2,300 gross square meters of land along with 12,000 gross square feet of office space in Mumbai, India.

Arsynco's former manufacturing facility is located on a 12-acre parcel in Carlstadt, New Jersey, that it owns.

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

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

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

#### Item 3. Legal Proceedings.

We are subject to various claims that have arisen in the normal course of business. We do not know what impact the final resolution of these matters will have on our results of operations in a particular reporting period.

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.

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.

#### **Item 4. Mine Safety Disclosures**

Not Applicable.



## PART II

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

Our common stock is traded on the NASDAQ Global Select Market using the symbol "ACET." The following table states the fiscal year 2013 and 2012 high and low sales prices of our common stock as reported by the NASDAQ Global Select Market for the periods indicated.

	HIGH	LOW
FISCAL Y E A R 2013		
F i r s t Quarter	\$ 9.81	\$ 8.25
S e c o n d Quarter	10.20	8.95
T h i r d Quarter	11.49	9.60
F o u r t h Quarter	14.20	10.00
FISCAL Y E A R 2012		
F i r s t Quarter	\$ 6.83	\$ 4.51
S e c o n d Quarter	7.14	5.10
T h i r d Quarter	9.63	6.56
F o u r t h Quarter	9.99	7.90

Cash dividends of \$0.055 per common share were paid in September, December, March and June of fiscal year 2013. Cash dividends of \$0.10 per common share were paid in January and June of fiscal 2012 and fiscal 2011. Our revolving credit facility restricts the payment of cash dividends to \$6,600 per fiscal year.

As of August 23, 2013, there were 332 holders of record of our common stock.

26,458,466 shares of our common stock were held by the nominee of the Depository Trust Company, the country's principal central depository. For purposes of determining the number of owners of our common stock, those shares are considered to be owned by one holder. Additional individual holdings in street name result in a sizable number of beneficial owners being represented on our records as owned by various banks and stockbrokers.

The following table states certain information with respect to our equity compensation plans at June 30, 2013:

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Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	960,000	\$ 8.36	3,329,000
Equity compensation plans not approved by security holders	-	-	-
Total	960,000	\$ 8.36	3,329,000

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## Performance Graph

The following graph compares on a cumulative basis the yearly percentage change, assuming dividend reinvestment, over the last five fiscal years in (a) the total shareholder return on our common stock with (b) the total return on the Standard & Poor's 500 Index, and (c) the total return of our Peer Group. Our Peer Group consists of 17 companies selected by us, based on total revenues, nature of business, product offerings, customer base, operational model and overall strategy. The peer group companies included: American Pacific Corp., American Vanguard Corp., Balchem Corp., Calgon Carbon Corp., Cambrex Corp., DXP Enterprises Inc., Hawkins Inc., Innophos Holdings, Innospec Inc., KMG Chemical Inc., Lawson Products, Myers Industries Inc., Nutraceutical International Corp., Prestige Brand Holdings, Quaker Chemical Corp., Rogers Corp., and Usana Health Sciences Inc.

The following graph assumes that \$100 had been invested in each of the Company, the Standard & Poor's 500 Index, and the Peer Group on June 30, 2008. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ASSUMES \$100 INVESTED ON JUNE 30, 2008  
ASSUMES DIVIDEND REINVESTMENT  
FISCAL YEAR ENDING JUNE 30, 2013

	Aceto Corporation	S&P 500 Index	Peer Group
June 30, 2008	100	100	100
June 30, 2009	90	74	75
June 30, 2010	80	84	91
June 30, 2011	96	110	143
June 30, 2012	132	116	157
June 30, 2013	208	140	203

Item 6. Selected Financial Data  
(In thousands, except per-share amounts)

Fiscal years ended June 30,	2013	2012	2011	2010	2009
Net sales	\$499,690	\$444,388	\$412,428	\$346,631	\$322,646
Operating income	34,416	25,366	16,550	9,438	11,893
Net income	22,328	16,981	8,968	6,581	8,629
At year end					
Working capital	\$128,393	\$118,328	\$115,429	\$120,924	\$124,709
Total assets	323,430	299,280	311,665	231,851	205,464
Long-term liabilities (including long-term debt)	38,883	57,636	67,658	17,578	16,959
Shareholders' equity	194,640	168,003	160,821	139,644	141,568
Income per common share					
Basic income per common share from net income	\$0.83	\$0.64	\$0.35	\$0.26	\$0.35
Diluted income per common share from net income	\$0.81	\$0.63	\$0.34	\$0.26	\$0.35
Cash dividends	\$0.22	\$0.20	\$0.20	\$0.20	\$0.20

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

Executive Summary

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

We are reporting a \$55,302 increase in net sales and a \$9,050 increase in operating income for fiscal 2013 from fiscal 2012. Our net income increased to \$22,328, or \$0.81 per diluted share, an increase of \$5,347 or 31.5% compared to fiscal year 2012.

Our financial position as of June 30, 2013, remains strong, as we had cash, cash equivalents and short-term investments of \$35,375, working capital of \$128,393 and shareholders' equity of \$194,640.

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. ("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. This is 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.

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. This globally structured business then became the model for all of our business segments, providing international reach and perspective for our customers.

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, both domestically and internationally. We supply APIs to many of 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 Abbreviated New Drug Application (ANDA) for U.S. Food and Drug Administration (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 to 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.

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.

We believe the Company's main 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, refer to the accompanying consolidated statements of income, which present the results of our operations for the three years ended June 30, 2013. We analyze and explain the differences between periods in the specific line items of the consolidated statements of income.

#### Critical Accounting Estimates and Policies

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. In preparing these financial statements, we were required to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We regularly evaluate our estimates including those related to allowances for bad debts, 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.

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

#### Revenue Recognition

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

Sales are recorded net of estimated returns of damaged goods from customers, which historically have been immaterial, and sales incentives offered to customers. Sales incentives include volume incentive rebates. We record volume incentive rebates based on the underlying revenue transactions that result in progress by the customer in earning the rebate. In addition, upon each sale, estimates of rebates, chargebacks, returns, government reimbursed rebates, and other adjustments are made. These estimates are recorded as reductions to gross revenues, with corresponding adjustments to either liabilities or reserve for price concessions. We have the experience and access to relevant information that we believe are necessary to reasonably estimate the amounts of such deductions from gross revenues. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates.

#### Allowance for Doubtful Accounts



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

### Royalty Income

We have royalty agreements on certain products where third party pharmaceutical and agricultural protection companies market such products. We earn and collect royalty income based on percentages of net profits as defined in those agreements. Royalty income is included in net sales in our Consolidated Statements of Income.

### Partnered Products

We have various products which we have entered into collaborative arrangements with certain pharmaceutical companies. As a result of these arrangements, we share profits on sales of these products, which are included in cost of sales. The shared profits are settled on a quarterly basis.

### Inventories

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

### Goodwill and Other Indefinite-Lived Intangible Assets

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

In accordance with GAAP, we test goodwill and other indefinite-lived intangible assets for impairment on at least an annual basis. To determine the fair value of these intangible assets, we use many assumptions and estimates that directly impact the results of the testing. In making these assumptions and estimates, we use industry-accepted valuation models and appropriate market participant assumptions that are reviewed and approved by various levels of management. If our estimates or our related assumptions change in the future, we may be required to record impairment charges for these assets.

### Long-Lived Assets

In accordance with GAAP, long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Identifiable intangible assets principally consist of customer relationships, product rights and related intangibles, EPA registrations and related data, patent license, and technology-based intangibles. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair value. If such assets are considered to be impaired, the impairment to be

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

#### Environmental and Other Contingencies

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

## Taxes

We account for income taxes in accordance with GAAP. GAAP establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset-and-liability approach to financial accounting and reporting of income taxes.

As of June 30, 2013, we had current net deferred tax assets of \$701 and non-current net deferred tax assets of \$8,049. These net deferred tax assets have been recorded based on our projecting that we will have sufficient future earnings to realize these assets, and the net deferred tax assets have been provided for at currently enacted income tax rates. If we determine that we will not be able to realize a deferred tax asset, an adjustment to the deferred tax asset could result in a reduction of net income at that time.

Deferred taxes have not been provided for on the majority of undistributed earnings of foreign subsidiaries since substantially all of these earnings are expected to be permanently reinvested in our foreign operations. A deferred tax liability is recognized when we expect that we will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. The Company intends to permanently reinvest any undistributed earnings and has no plan for further repatriation. Determination of the amount of the unrecognized U.S. income tax liability on undistributed earnings is not practical because of the complexities of the hypothetical calculation. In addition, unrecognized foreign tax credit carryforwards would be available to reduce a portion of such U.S. tax liability.

## Stock-based Compensation

In accordance with GAAP, we are required to record the fair value of stock-based compensation awards as an expense.

In order to determine the fair value of stock options on the date of grant, the Company uses the Black-Scholes option-pricing model, including an estimate of forfeiture rates. Inherent in this model are assumptions related to expected stock-price volatility, risk-free interest rate, expected life and dividend yield. The Company uses an expected stock-price volatility assumption that is a combination of both historical volatility, calculated based on the daily closing prices of its common stock over a period equal to the expected life of the option and implied volatility, utilizing market data of actively traded options on Aceto's common stock, which are obtained from public data sources. The Company believes that the historical volatility of the price of its common stock over the expected life of the option is a reasonable indicator of the expected future volatility and that implied volatility takes into consideration market expectations of how future volatility might differ from historical volatility. Accordingly, the Company believes a combination of both historical and implied volatility provides the best estimate of the future volatility of the market price of its common stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates.

## Results of Operations

Fiscal Year Ended June 30, 2013 Compared to Fiscal Year Ended June 30, 2012

Segment	Net Sales by Segment Year ended June 30,						Comparison 2013 Over/(Under) 2012	
	2013		2012		\$	%	Change	%
	Net sales	% of Total	Net sales	% of Total				
Human Health Pharmaceutical	\$ 129,667	25.9 %	\$ 105,249	23.7 %	\$ 24,418		23.2 %	
Ingredients	184,852	37.0	162,998	36.7	21,854		13.4	
Performance Chemicals	185,171	37.1	176,141	39.6	9,030		5.1	
Net sales	\$ 499,690	100.0 %	\$ 444,388	100.0 %	\$ 55,302		12.4 %	

Segment	Gross Profit by Segment Year ended June 30,						Comparison 2013 Over/(Under) 2012	
	2013		2012		\$	%	Change	%
	Gross Profit	% of Sales	Gross Profit	% of Sales				
Human Health Pharmaceutical	\$ 39,306	30.3 %	\$ 29,932	28.4 %	\$ 9,374		31.3 %	
Ingredients	31,367	17.0	25,472	15.6	5,895		23.1	
Performance Chemicals	27,598	14.9	26,628	15.1	970		3.6	
Gross profit	\$ 98,271	19.7 %	\$ 82,032	18.5 %	\$ 16,239		19.8 %	

## Net Sales

Net sales increased \$55,302, or 12.4%, to \$499,690 for the year ended June 30, 2013, compared with \$444,388 for the prior year. We reported sales increases in all three of our business segments.

## Human Health

Net sales for the Human Health segment increased by \$24,418 for the year ended June 30, 2013, to \$129,667, which represents a 23.2% increase over net sales of \$105,249 for the prior year, largely driven by an increase in sales of Rising products of \$27,284 due to new generic product launches at Rising. This increase is partially offset by a reduction in domestic sales of \$4,281 of nutritional products due to lower orders of existing products.

## Pharmaceutical Ingredients

Net sales for the Pharmaceutical Ingredients segment increased by \$21,854 for the year ended June 30, 2013, to \$184,852, which represents a 13.4% increase over net sales of \$162,998 for the prior year. Overall, the domestic Pharmaceutical Ingredients group had an increase of \$8,346, when compared to the prior period. The primary reason for the increase is due to the volume of large reorders for existing APIs sold by our United States and German operations, as well as a launch of a new product, sold domestically. 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 \$5,233 over the prior year.

## Performance Chemicals

Net sales for the Performance Chemicals segment increased to \$185,171 for the year ended June 30, 2013, an increase of \$9,030 or 5.1%, from net sales of \$176,141 for the prior year. Our Performance Chemicals segment experienced an increase in sales of our agricultural protection products, primarily from sales of a wide-range insecticide used on various crops including cereals, citrus, cotton, grapes, ornamental grasses and vegetables and increased sales of a broad-spectrum herbicide. These increases in agricultural protection product sales are partially offset by a decline in domestic sales of agricultural intermediates, sold by our Specialty Chemicals business.

## Gross Profit

Gross profit increased \$16,239 to \$98,271 (19.7% of net sales) for the year ended June 30, 2013, as compared to \$82,032 (18.5% of net sales) for the prior year.

## Human Health

Human Health's gross profit of \$39,306 for the year ended June 30, 2013 increased \$9,374, or 31.3%, over the prior year. The gross margin increased to 30.3% for the year ended June 30, 2013 compared to 28.4% for the prior year. The increase in gross profit and gross margin in the Human Health segment primarily relates to increased sales volume of Rising products.

## Pharmaceutical Ingredients

Gross profit for the year ended June 30, 2013 for the Pharmaceutical Ingredients business increased by \$5,895 or 23.1% over the prior year. The gross margin of 17.0% was also higher than the prior year's gross margin of

15.6%. 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 \$27,598 for the year ended June 30, 2013, versus \$26,628 for the prior year, an increase of \$970, or 3.6%. The gross margin at 14.9% for the year ended June 30, 2013 was relatively flat compared to the prior year's gross margin of 15.1%.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased \$7,189, or 12.7%, to \$63,855 for the year ended June 30, 2013 compared to \$56,666 for the prior year. As a percentage of sales, SG&A remained constant at 12.8% for the year ended June 30, 2013 versus the prior year. The primary reasons for the increase in SG&A are \$3,244 additional accrued contingent consideration related to the Rising acquisition as well as increased research and development expenses related to certain Rising products and increased information technology maintenance and software related costs. We also experienced additional accrued performance award expense and increased fringe benefits and stock-based compensation expense due to increased financial performance. During fiscal 2012, the Company recorded approximately \$884 of one-time costs associated with the separation of certain executive management employees, as well as \$761 additional accrued contingent consideration related to the Rising acquisition.

### Operating Income

Fiscal 2013 operating income was \$34,416 compared to \$25,366 in the prior year, an increase of \$9,050 or 35.7%. This increase was due to the overall increase in gross profit of \$16,239 partially offset by an increase in SG&A of \$7,189 from the prior year.

### Interest Expense

Interest expense was \$2,122 for the year ended June 30, 2013, a decrease of \$505 from the prior year. The decrease is primarily due to lower average loan balance outstanding during the fiscal year ended June 30, 2013 versus June 30, 2012, as well as a lower Adjusted LIBOR rate during the period.

### Provision for Income Taxes

The effective tax rate for fiscal 2013 increased to 35.4% from 31.4% for fiscal 2012. The increase in the effective tax rate was due to the mix of profits from higher tax rate jurisdictions in fiscal 2013. In addition, in fiscal 2011 we repatriated earnings from certain foreign subsidiaries, in connection with our acquisition of Rising. In fiscal 2012, our effective tax rate was favorably impacted by the reversal of approximately \$529 of tax expense related to the final tax payment associated with the fiscal 2011 repatriation. The Company intends to permanently reinvest its undistributed earnings and has no plan for further repatriation.



## Results of Operations

Fiscal Year Ended June 30, 2012 Compared to Fiscal Year Ended June 30, 2011

Segment	Net Sales by Segment Year ended June 30,							Comparison 2012 Over/(Under) 2011	
	2012		2011				\$	%	
	Net sales	% of Total	Net sales	% of Total			Change	% Change	
Human Health Pharmaceutical Ingredients	\$ 105,249	23.7 %	\$ 69,856	16.9 %			\$ 35,393	50.7 %	
Performance Chemicals	162,998	36.7	149,340	36.2			13,658	9.1	
	176,141	39.6	193,232	46.9			(17,091 )	(8.8 )	
Net sales	\$ 444,388	100.0 %	\$ 412,428	100.0 %			\$ 31,960	7.7 %	

Segment	Gross Profit by Segment Year ended June 30,							Comparison 2012 Over/(Under) 2011	
	2012		2011				\$	%	
	Gross Profit	% of Sales	Gross Profit	% of Sales			Change	% Change	
Human Health Pharmaceutical Ingredients	\$ 29,932	28.4 %	\$ 15,534	22.2 %			\$ 14,398	92.7 %	
Performance Chemicals	25,472	15.6	23,897	16.0			1,575	6.6	
	26,628	15.1	26,407	13.7			221	0.8	