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its short and long-term liquidity. At June 30, 2003, the Company has no significant obligations for capital expenditures. At June 30, 2003, contractual cash obligations and other commercial commitments are as follows:

Payments Due and/or Amount of Commitment	Expiration Per Period -----	Less Than 1-3 4-5 After Total
1 Year Years Years 5 Years -----	-----	Long-term liabilities/ bank loans \$ 3,286 \$ 3,286 \$ - \$ - \$ -
Operating leases 9,373 1,418 2,665 2,349 2,941	Commercial letters of credit 1,199 1,199 - - -	Standby letters of credit
122 122 - - -	Unconditional purchase obligations 23,193 22,358 835 - - -	-----
\$28,383 \$ 3,500 \$2,349 \$2,941	=====	===== 17 IMPACT OF NEW

ACCOUNTING PRONOUNCEMENTS In July 2002, the FASB issued No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 will spread out the reporting of expenses related to restructurings initiated after 2002, because commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Instead, companies will record exit and disposal costs when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The Company adopted the provisions of SFAS 146 as of January 1, 2003. The adoption of this statement did not have a significant impact on the Company's consolidated financial statements. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally defined by SFAS No. 123, "Accounting for Stock-Based Compensation." Additionally, SFAS 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The transitional requirements of SFAS 148 are effective for all financial statements for fiscal years ending after December 15, 2002. The Company adopted the disclosure portion of this statement for the fiscal quarter ended March 31, 2003. The application of the disclosure portion of this standard had no impact on the Company's consolidated financial position or results of operations. The FASB recently indicated that it will require stock-based employee compensation to be recorded as a charge to earnings pursuant to a standard on which it is currently deliberating. The FASB anticipates issuing an Exposure Draft in the fourth quarter of 2003 and a final statement in the second quarter of 2004. The Company will continue to monitor the FASB's progress on the issuance of this standard as well as evaluate the Company's position with respect to current guidance. In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not believe that the adoption of SFAS No. 149 will have a material impact on its consolidated financial statements. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liability and equity in its statement of financial position. SFAS No. 150 is effective for new or modified financial instruments beginning July 1, 2003 and for existing instruments beginning August 1, 2003. The Company does not believe that the adoption of SFAS No. 150 will have a material impact on its consolidated financial statements. In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" ("Int. No. 45"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. Int. No. 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of Int. No. 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company has not entered into any such guarantees and therefore the adoption of this standard did not impact the Company's consolidated financial statements. In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("Int. No. 46") an interpretation of ARB No. 51. Int. No. 46 addresses consolidation by business enterprises of variable interest entities. Int. 18 No. 46 applies immediately to variable interest entities created after

January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. Int. No. 46 applies in the first year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company is in the process of determining the impact of implementing Int. No. 46 on its consolidated financial statements. ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Market Risk Sensitive Instruments The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in market price, foreign currency exchange rates and interest rates. Market Price Risk Short-term investments at June 30, 2003 of \$877 which consists solely of corporate securities and are recorded at fair value have exposure to price risk. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges and amounts to \$88 as of June 30, 2003. Actual results may differ. Foreign Currency Exchange Risk In order to reduce the risk of foreign currency exchange rate fluctuations, the Company hedges some of its transactions denominated in a currency other than the functional currencies applicable to each of its various entities. The instruments used for hedging are short term foreign currency contracts (futures). The changes in market value of such contracts have a high correlation to price changes in the currency of the related hedged transactions. At June 30, 2003, the Company had foreign currency contracts outstanding that have a notional amount of \$3,431. The difference between the fair market value of the foreign currency contracts and the related commitments at inception and the fair market value of the contracts and the related commitments at June 30, 2003 was \$99. In addition, the Company also enters into cross currency interest rate swaps to reduce foreign currency exposure on intercompany transactions. In May 2003, the Company entered into a five-year cross currency interest rate swap transaction for the purpose of hedging fixed interest rate, foreign currency denominated cash flows under an inter-company loan receivable. Under the terms of this derivative financial instrument, U.S. dollar-fixed principal and interest payments to be received under an intercompany loan will be swapped for EURO denominated fixed principal and interest payments. The fair market value of the swap at June 30, 2003 was \$(131). The gains or losses on the foreign currency loan receivable will be offset by the gains or losses on the swap. Because the Company is receiving fixed interest payments under the swap, it is still subject to fluctuations in value due to changes in Euro and U.S. dollar foreign currency rates and U.S. dollar interest rates. As of June 30, 2003 the impact of these fluctuations was not significant. This hedge was deemed to be highly effective as of June 30, 2003. The Company is subject to risk from changes in foreign exchange rates for its subsidiaries that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments which are included in accumulated other comprehensive income (loss). On June 30, 2003, the Company had translation exposure to various foreign currencies with the most significant being the Euro and Singapore Dollars. The potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of June 30, 2003, amounts to \$2,046. Actual results may differ. Interest Rate Risk The Company is subject to market risk from exposure to changes in interest rates based upon its financing, investing and cash management activities. The Company utilizes a balanced mix of debt maturities along with both fixed-rate and variable-rate debt to manage its exposure to changes in interest rates. The Company's financial instrument holdings at year-end were analyzed to determine their sensitivity to interest rate changes. In this sensitivity analysis, the Company used the same change in interest rate for all maturities. All other factors were held constant. If there were an adverse change in interest rates of 10%, the expected effect on net income related to our financial instruments would be immaterial. However, there can be no assurances that interest rates will not significantly affect its results of operations.

19 ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. The financial statements required by this item 8 are set forth at the end of this report. The following is the applicable supplementary data: The following is a summary of the unaudited quarterly results of operations for the years ended June 30, 2003 and 2002.

QUARTERLY FINANCIAL DATA (Unaudited) (In thousands except per share amounts) Year Ended June 30, 2003

	Quarter Ended Sept.30,2002	Dec.31,2002	Mar.31,2003	June 30,2003	-----	-----	-----	-----	-----
Net sales	\$68,022	\$64,633	\$70,561	\$68,060	11,245	11,006	11,794	11,251	Income before cumulative effect of accounting change
	2,323	2,328	2,411	2,406	450(2)	2,328	2,411	2,406	Income before cumulative effect of accounting change
	per common share - diluted	(1) 0.24	0.23	0.24	0.23	Net income per common share - diluted	(1)(2) 0.05(2)	0.23	0.24
	0.23	0.24	0.23	Year Ended June 30, 2002	Quarter Ended Sept.30,2001	Dec.31,2001	Mar.31,2002	June 30,2002	-----
	-----	-----	-----	-----	-----	-----	-----	-----	Net sales
	\$47,641	\$55,365	\$61,594	\$64,729	7,246	9,466	9,757	10,812	Net income
	535	1,243	1,523	1,644	Net income per common share - diluted	(1) 0.05	0.13	0.15	0.17
	(1)	0.05	0.13	0.15	0.17	(1)			

Adjusted for a 3-for-2 stock split of the common stock, paid January 2, 2003. (2) Reflects a charge of \$1,873 for a cumulative effect of an accounting change resulting from an impairment of goodwill which was determined to be required upon the Company's adoption of SFAS 142. Net income per common share calculation for each of the quarters is based on weighted average number of shares outstanding in each period. Therefore, the sum of the quarters in a year does not necessarily equal the year's net income per common share. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE. None. 20 ITEM 9A. CONTROLS AND PROCEDURES As required by Securities and Exchange Commission rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no significant changes to our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation. Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Company is working closely with its corporate and securities lawyers to ensure that it maintains compliance with the Sarbanes-Oxley Act of 2002, the SEC regulations promulgated pursuant to that Act, and any related NASDAQ Stock Market rules. PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY Incorporated herein by reference to the Company's Definitive Proxy Statement with respect to the Company's Annual Meeting of Shareholders scheduled to be held on December 4, 2003. ITEM 11. EXECUTIVE COMPENSATION Incorporated herein by reference to the Company's Definitive Proxy Statement with respect to the Company's Annual Meeting of Shareholders scheduled to be held on December 4, 2003. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS Incorporated herein by reference to the Company's Definitive Proxy Statement with respect to the Company's Annual Meeting of Shareholders scheduled to be held on December 4, 2003. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Incorporated herein by reference to the Company's Definitive Proxy Statement with respect to the Company's Annual Meeting of Shareholders scheduled to be held on December 4, 2003. 21 ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES Incorporated herein by reference to the Company's Definitive Proxy Statement with respect to the Company's Annual Meeting of Shareholders scheduled to be held on December 4, 2003. PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K. (a) The Financial Statements listed in the Index to Consolidated Financial Statements are filed as part of this report. (b) Reports on Form 8-K. The Company filed a Form 8-K on May 8, 2003 furnishing its earnings release in connection with its third quarter. (c) Exhibits 3.1 Restated Certificate of Incorporation (incorporated by reference to Exhibit 4(a)(iii) to Registration Statement No. 2-70623 on Form S-8 (S-8 2-70623)). 3.2 Certificate of Amendment dated November 21, 1985 to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(ii) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1986). 3.3 By-laws(incorporated by reference to Exhibit 3(iii)(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1998). 10.1 Profit Sharing Plan, as amended and restated effective July 1, 1989 (incorporated by reference to Exhibit 10(iii)(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995). 10.2 401(k) Plan, effective August 1, 1997, (incorporated by reference to Exhibit 10 (iii) to the Company's Annual Report on Form 10-K for the year ended June 30, 1998). 10.3 Supplemental Executive Retirement Plan, effective June 30, 1985, as amended and restated, effective July 1, 1992 (incorporated by reference to Exhibit 10(iv)(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993). 10.4 Aceto Corporation Stock Option Plan (as Amended and Restated effective as of September 19, 1990) (and as further Amended effective June 9, 1992) (incorporated by reference to Exhibit 10(v)(b) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1992). 10.5 1998 Aceto Corporation Omnibus Equity Award Plan (incorporated by 22 reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999). 10.6 Lease between Aceto Corporation and M. Parisi & Son

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Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi) to the Company's Annual Report Form 10-K for the fiscal year ended June 30, 2000). 10.7 Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi)(b) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.8 Lease between CDC Products Corp. and Seaboard Estates for manufacturing and office space at 1801 Falmouth Avenue, New Hyde Park, NY dated October 31, 1999 (incorporated by reference to Exhibit 10(vi)(c) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.9 Stock Purchase Agreement among Windham Family Limited Partnership, Peter H. Kliegman, CDC Products Corp. and Aceto Corporation (incorporated by reference to Exhibit 10(vii) to the Company's Annual Report on Form 10-K for the year ended June 30, 1999). 10.10 Asset Purchase Agreement among Magnum Research Corporation, CDC Products Corp., Roy Gross and Aceto Corporation (incorporated by reference to Exhibit 10 (viii) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.11 Asset Purchase Agreement between Schweizerhall, Inc. and Aceto Corporation (incorporated by reference to Exhibit 10(ix) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.12 Purchase and Sale Agreement among Schweizerhall Holding AG, Chemische Fabrik Schweizerhall, Schweizerhall, Inc., Aceto Corporation and Aceto Holding B.V., I.O. (incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K dated April 4, 2001). 10.13 Loan Guarantee between Aceto Corporation and subsidiaries and Deutsche Bank AG dated March 22, 2001 (incorporated by reference to Exhibit 10.13 to the Company's report on Form 10-K for the year ended June 30, 2001). 10.14 Credit Agreement between Aceto Corporation and subsidiaries and JPMorgan Chase Bank dated May 10, 2002 (incorporated by reference to Exhibit 10.14 to the Company's report on Form 10-K for the year ended June 30, 2002). 21* Subsidiaries of the Company. 23* Consent of KPMG LLP. 23 31.1** Certification by CEO Leonard S. Schwartz pursuant to U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002. 31.2** Certification by CFO Douglas Roth pursuant to U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32.1** Certification by CEO Leonard S. Schwartz pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. 32.2** Certification by CFO Douglas Roth pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. -----
* Incorporated by reference to the Company's Form 10-K filed on September 26, 2003. ** Filed herewith 24 ACETO CORPORATION AND SUBSIDIARIES Index to Consolidated Financial Statements Independent Auditors' Report Consolidated financial statements: Consolidated balance sheets as of June 30, 2003 and 2002 Consolidated statements of income for the years ended June 30, 2003, 2002 and 2001 Consolidated statements of cash flows for the years ended June 30, 2003, 2002 and 2001 Consolidated statements of shareholders' equity and comprehensive income (loss) for the years ended June 30, 2003, 2002 and 2001 Notes to consolidated financial statements Schedules: II - Valuation and qualifying accounts All other schedules are omitted because they are not required or the information required is given in the consolidated financial statements or notes thereto. 25 Independent Auditors' Report -----
The Board of Directors and Stockholders Aceto Corporation: We have audited the accompanying consolidated balance sheets of Aceto Corporation and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended June 30, 2003. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aceto Corporation and subsidiaries as of June 30, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2003 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when

considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. As discussed in note 7, effective July 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standard (Statement) No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets". /s/ KPMG LLP Melville, New York August 26, 2003 26

ACETO CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS JUNE 30, 2003 AND 2002 (IN THOUSANDS, EXCEPT SHARE DATA) JUNE 30, JUNE 30, 2003 2002 ---- ---- ASSETS Current assets: Cash and cash equivalents \$ 20,263 \$ 14,255 Short-term investments 877 1,320 Receivables: Trade, less allowance for doubtful accounts: 2003, \$939; 2002, \$657 43,841 42,417 Other 1,320 4,266 ----- 45,161 46,683 Inventory 41,696 36,271 Prepaid expenses and other current assets 1,015 1,191 Income taxes receivable 939 - Deferred income tax benefit, net 301 521 Property held for sale 326 483 ----- Total current assets 110,578 100,724 Long-term notes receivable 1,017 691 Property and equipment: Machinery and equipment 1,244 1,069 Leasehold improvements 1,143 1,143 Computer equipment and software 2,540 1,680 Furniture and fixtures 667 593 Automobiles 362 293 ----- 5,956 4,778 Less accumulated depreciation and amortization 3,681 2,346 ----- 2,275 2,432 Goodwill, less accumulated amortization: 2003, \$677; 2002, \$1,086 7,783 9,821 Deferred income tax benefit 1,107 1,083 Other assets 759 952 ----- Total Assets \$123,519 \$115,703 ===== See accompanying notes to consolidated financial statements. 27 June 30, June 30, 2003 2002 ---- ---- (In thousands, except share data) LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Drafts and acceptances payable \$ 1,315 \$ 4,073 Short-term bank loans 3,286 7,336 Current installments on long-term liabilities - 272 Accounts payable 17,372 14,326 Accrued merchandise purchases 4,048 4,196 Accrued compensation 4,117 2,799 Accrued environmental remediation 1,550 1,284 Accrued income taxes - 1,582 Other accrued expenses 7,262 6,545 ----- Total current liabilities 38,950 42,413 Shareholders' equity: Common stock, \$.01 par value; Authorized: 20,000,000 shares Issued: 2003, 12,292,684 shares 2002, 12,292,684 shares Outstanding: 2003, 10,286,175 shares 2002, 9,825,363 shares 123 123 Capital in excess of par value 57,100 56,461 Retained earnings 46,142 40,863 Treasury stock, at cost: 2003, 2,006,509 shares 2002, 2,467,321 shares (19,836) (24,252) Accumulated other comprehensive income 1,040 95 ----- Total shareholders' equity 84,569 73,290 ----- Commitments and contingencies (Note 18) Total liabilities and shareholders' equity \$123,519 \$115,703 ===== See accompanying notes to consolidated financial statements. 28 ACETO CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED JUNE 30, 2003, 2002 AND 2001 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) 2003 2002 2001 ---- ---- Net sales \$271,276 \$229,329 \$178,154 Cost of sales 225,980 192,048 149,537 ----- Gross profit 45,296 37,281 28,617 Selling, general and administrative expenses 32,359 29,945 22,761 ----- Operating income 12,937 7,336 5,856 Other income (expense): Interest expense (284) (368) (296) Interest and other income 713 410 1,226 ----- 429 42 930 ----- Income before income taxes and cumulative effect of accounting change 13,366 7,378 6,786 Income taxes: Federal: Current 1,798 1,436 2,417 Deferred 103 220 (287) State and local: Current 348 337 332 Deferred 93 (50) (50) Foreign: Current 1,556 490 129 ----- 3,898 2,433 2,541 ----- Income before cumulative effect of accounting change 9,468 4,945 4,245 Cumulative effect of accounting change 1,873 - - ----- Net income \$ 7,595 \$ 4,945 \$ 4,245 ===== Basic income per common share (a): Income before accounting change \$ 0.96 \$ 0.51 \$ 0.46 Cumulative effect of accounting change 0.19 - - ----- Net income \$ 0.77 \$ 0.51 \$ 0.46 ===== Diluted income per common share (a): Income before accounting change \$ 0.94 \$ 0.50 \$ 0.46 Cumulative effect of accounting change 0.19 - - ----- Net income \$ 0.75 \$ 0.50 \$ 0.46 ===== Weighted average shares outstanding (a): Basic 9,909 9,779 9,184 Diluted 10,117 9,833 9,222 (a)

The number of shares outstanding and the per share information have been adjusted for a 3-for-2 split of the common stock, paid January 2, 2003. See accompanying notes to consolidated financial statements. 29 ACETO CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003, 2002 AND 2001 (IN THOUSANDS) 2003 2002 2001 ---- ---- Operating activities: Net income \$ 7,595 \$ 4,945 \$ 4,245 Adjustments to reconcile net income to net cash provided by operating activities: Cumulative effect of accounting change 1,873 - - Depreciation and amortization 1,038 1,629 909 Gain on sale of assets (291) (3) - Provision for doubtful accounts 446 566 307 Foreign currency translation adjustment 945 859 (764) Deferred tax provision (benefit) 196 170 (337) Income tax benefit on exercise of stock options 1,589 10 - Changes in assets and liabilities, net of effect of the acquisitions: Investments - trading securities 74 37 (53) Trade accounts receivable (1,870) (4,698) 575 Other receivables 2,937 (1,036) 143 Income taxes receivable (939) - - Inventory (5,425) (137)

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6,280 Prepaid expenses and other current assets 176 (505) 383 Other assets 69 (158) (29) Drafts & acceptances payable (2,758) 2,540 1,069 Accounts payable 3,046 3,797 1,455 Accrued merchandise purchases (148) 2,570 (10,395) Accrued compensation 1,318 (114) (298) Accrued environmental remediation 266 (8) (20) Accrued income taxes (1,582) 1,063 (840) Other accrued expenses and long term liabilities 577 3,953 (222) ----- Net cash provided by operating activities 9,132 15,480 2,408 ----- Investing activities: Proceeds from maturation of held-to-maturity investments 369 - 8,112 Payments received on notes receivable 96 88 82 Purchases of property and equipment (590) (640) (1,305) Proceeds from sale of property, net of closing costs 173 12 - Acquisition of businesses, net of cash acquired - (563) 1,205 Payments for additional inventory recorded in goodwill - (2,639) - Proceeds from settlement of certain acquired accounts receivable balances recorded in goodwill - 1,571 ----- Net cash provided by (used in) investing activities 48 (2,171) 8,094 ----- Financing activities: Payments of short-term bank loans (4,050) (1,528) (102) Payments of current installments on long-term liabilities (272) - - Payments of cash dividends (2,316) (2,088) (1,936) Payments of long-term liabilities - (796) (531) Payments of notes payable - acquisition - (2,313) (2,313) Proceeds from exercise of stock options 3,269 239 332 Payments for purchases of treasury stock (39) (121) (1,642) Issuance of treasury stock to employees 236 243 189 ----- Net cash used in financing activities (3,172) (6,364) (6,003) ----- Net increase in cash 6,008 6,945 4,499 Cash at beginning of year 14,255 7,310 2,811 ----- Cash at end of year \$20,263 \$14,255 \$7,310 =====

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See accompanying notes to consolidated financial statements. 30 ACETO CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (In thousands, except share data) Common Stock Accumulated ----- Capital in Other Shares Par Value Excess of Retained Treasury Stock Comprehensive Issued (\$.01) Par Value Earnings Shares Amount Income (Loss) Total ----- Balance at June 30, 2000 12,292,684 \$123 \$57,021 \$35,697 (2,966,573) \$(29,237) \$ - \$63,604 Net income - - - 4,245 - - - 4,245 Other comprehensive income (loss): Foreign currency translation adjustments - - - - - (764) (764) ----- Comprehensive income 3,481 ----- Stock issued pursuant to employee incentive plans - - (12) - 20,479 201 - 189 Cash dividends: Common stock (\$0.21 per share) - - - (1,936) - - - (1,936) Exercise of stock options - - 14 - 23,250 229 - 243 Tax benefit from exercise of stock option plans - - 9 - - - 9 Treasury stock purchases - - - - (174,739) (1,642) - (1,642) Lapsed stock options - - 80 - - - 80 Shares issued in connection with acquisition - - (729) - 600,000 5,904 - 5,175

----- Balance at June 30, 2001 12,292,684 123 56,383 38,006 (2,497,583) (24,545) (764) 69,203 Net income - - - 4,945 - - - 4,945 Other comprehensive income (loss): Foreign currency translation adjustments - - - - - 859 859 ----- Comprehensive income 5,804 ----- Stock issued pursuant to employee incentive plans - - 9 - 23,762 234 - 243 Cash dividends: Common stock (\$0.21 per share) - - - (2,088) - - - (2,088) Exercise of stock options - - (22) - 18,300 180 - 158 Tax benefit from exercise of stock option plans - - 10 - - - 10 Treasury stock purchases - - - - (11,800) (121) (121) Lapsed stock options - - 81 - - - 81

----- Balance at June 30, 2002 12,292,684 123 56,461 40,863 (2,467,321) (24,252) 95 73,290 Net income - - - 7,595 - - - 7,595 Other comprehensive income (loss): Foreign currency translation adjustments - - - - - 945 945 ----- Comprehensive income 8,540 ----- Stock issued pursuant to employee incentive plans - - 61 - 17,733 175 - 236 Cash dividends: Common stock (\$0.23 per share) - - - (2,316) - - - (2,316) Exercise of stock options - - (1,040) - 446,879 4,280 - 3,240 Tax benefit from exercise of stock option plans - - 1,589 - - - 1,589 Treasury stock purchases - - - - (3,800) (39) (39) Lapsed stock options - - 29 - - - 29

----- Balance at June 30, 2003 12,292,684 \$123 \$57,100 \$46,142 (2,006,509) \$(19,836) \$1,040 \$84,569 See accompanying notes to consolidated financial statements. 31 ACETO CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2003, 2002 AND 2001 (In thousands, except per share amounts) (1) DESCRIPTION OF BUSINESS Aceto Corporation and subsidiaries (the Company) is primarily engaged in the marketing, sale and distribution of pharmaceutical, fine and industrial chemicals used principally in the agricultural, color producing, pharmaceutical, nutraceutical and surface coating industries. Most of the chemicals distributed by the Company are purchased abroad. The Company's customers are located throughout the United States and other countries including Mexico, Brazil, Malaysia, Australia, Singapore, Thailand, Canada, Germany, France, the United Kingdom and The Netherlands. (2) SUMMARY OF SIGNIFICANT ACCOUNTING

POLICIES PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. **USE OF ESTIMATES** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. **CASH EQUIVALENTS** The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2003 include U.S. Treasury bills in the amount of \$2,996. There were no cash equivalents at June 30, 2002. **INVESTMENTS** The Company classifies investments in marketable securities as trading, available-for-sale or held-to-maturity at the time of purchase and periodically re-evaluates such classifications. Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Held-to-maturity securities are recorded at cost and are adjusted for the amortization or accretion of premiums or discounts over the life of the related security. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. In determining realized gains and losses, the cost of securities sold is based on the specific identification method. Interest and dividends on the investments are accrued at the balance sheet date. **INVENTORY** Inventories are valued at the lower of cost or market. Cost is determined using the first in, first out (FIFO) basis.

ENVIRONMENTAL REMEDIATION The Company accrues for losses associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. **COMMON STOCK SPLIT** On December 5, 2002, the Board of Directors of the Company declared a 3-for-2 split of the Company's common stock in the form of a 50 percent common stock dividend that was paid January 2, 2003, to shareholders of record on December 18, 2002. The 32 Company transferred \$33 to common stock from capital in excess of par value, representing the aggregate par value of the shares issued under the stock split. All references to the number of common shares and the per common share amounts have been restated to give retroactive effect to the above stock split for all periods presented. **STOCK OPTIONS** The Company applies Accounting Principles Board Opinion, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations for stock options and other stock-based awards while disclosing pro forma net income and earnings per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." The Company applies the intrinsic value method as outlined in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for stock options and share units granted under these programs. Under the intrinsic value method, no compensation expense is recognized if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. Since the Company has issued all stock grants at market value, no compensation cost has been recognized. Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation", requires that the Company provide pro forma information regarding net income and net income per common share as if compensation cost for the Company's stock option programs had been determined in accordance with the fair value method prescribed therein. The Company adopted the disclosure portion of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" requiring quarterly SFAS No. 123 pro forma disclosure. The following table illustrates the effect on net income and income per common share as if the Company had measured the compensation cost for the Company's stock option programs under the fair value method in each period presented.

	2003	2002	2001	----	----	----
Net income, as reported	\$7,595	\$4,945	\$4,245			
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(761)	(213)	(226)	-----	-----	-----
Net income - pro forma	\$6,834	\$4,732	\$4,019	=====	=====	=====
Net income per common share: Basic - as reported (a):	\$ 0.77	\$ 0.51	\$ 0.46			
Basic - pro forma	\$ 0.69	\$ 0.48	\$ 0.44			
Diluted - as reported (a):	\$ 0.75	\$ 0.50	\$ 0.46			
Diluted - pro forma	\$ 0.68	\$ 0.48	\$ 0.44			

(a) Retroactively adjusted to reflect a 3-for-2 stock dividend distributed on January 2, 2003 to common stockholders of records as of the close of business December 18, 2002. **REVENUE RECOGNITION** The Company recognizes revenue from product sales at the time of shipment and passage of title and risk of loss to the customer. Such revenues do not involve difficult, subjective, or complex judgments. The Company does not offer product warranties to its customers. **RESEARCH AND DEVELOPMENT COSTS** Research and development costs are

expensed as incurred and are included in cost of sales. Such costs were approximately \$71, \$269 and \$121 for the years ended June 30, 2003, 2002 and 2001, respectively. 33 **NET INCOME PER COMMON SHARE** Net income per common share amounts (basic EPS) were computed by dividing net income by the weighted average number of common shares outstanding and excluded any potential dilution. Net income per common share amounts, assuming dilution (diluted EPS), were computed by reflecting potential dilution from the exercise of stock options. The net income per common share amounts for each of the periods presented are based on the weighted average number of common shares outstanding, adjusted to reflect the 3-for-2 common stock split paid on January 2, 2003. **INCOME TAXES** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. **PROPERTY AND EQUIPMENT** Property and equipment are stated at cost and are depreciated using straight line, sum-of-the-years digits and declining balance methods. The estimated useful lives are as follows: Years ----- Machinery and equipment 10 Computer equipment and software 3-5 Furniture and fixtures 10 Automobiles 3 Leasehold improvements are amortized over the shorter of the life of the asset or the lease term. Depreciation and amortization of property and equipment amounted to \$795, \$738, and \$550 for the years ended June 30, 2003, 2002, and 2001, respectively. **GOODWILL** In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" (SFAS 141), and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company adopted the provisions of SFAS 141 and SFAS 142 as of July 1, 2002. As required by SFAS 142, the Company completed its transitional impairment testing of intangible assets. Under SFAS 142, goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. As of July 1, 2002, with the assistance of a third-party valuation firm, the Company finalized the testing of goodwill. The Company estimated the fair value of its reporting units by using a combination of discounted cash flow analyses and comparisons with the market values of similar publicly-traded companies. As a result of the impairment tests, the Company recorded a goodwill impairment charge of \$1,873 related to a business in the Institutional Sanitary Supply segment, which has been included as a cumulative effect of an accounting change in the accompanying consolidated statement of income for the year ended June 30, 2003 (note 7). 34 Also required by SFAS 142, on an annual basis, the Company tests goodwill and other intangible assets for impairment. To determine the fair value of these intangible assets, there are many assumptions and estimates used that directly impact the results of testing. In making these assumptions and estimates, the Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management, and the Company estimates the fair value of its reporting units by using a combination of discounted cash flow analyses and comparisons with the market values of similar publicly-traded companies. Additionally, the Company utilizes the assistance of a third-party valuation firm, as necessary, to help evaluate recorded goodwill. **IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF** Effective July 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which establishes accounting and reporting standards for the impairment or disposal of long-lived assets. SFAS No. 144 removes goodwill from its scope and retains the requirements of SFAS No. 121 regarding the recognition of impairment losses on long-lived assets held for use. Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured

by comparing the carrying amount of the assets to their estimated fair market 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. Property held for sale, which includes land and land improvements, is stated at cost. Impairment, if any, is recognized if the estimated fair value less costs to sell is lower than the carrying value.

ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES The Company accounts for derivatives and hedging activities under the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting guidelines for derivative instruments and hedging activities. SFAS 133 requires the recognition of all derivative financial instruments as either assets or liabilities in the statement of financial condition and measurement of those instruments at fair value. Changes in the fair values of those derivatives are reported in earnings or other comprehensive income depending on the designation of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the consolidated financial statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value or cash flows of the asset or liability hedged. Under the provisions of SFAS 133, the method that is used for assessing the effectiveness of a hedging derivative, as well as the measurement approach for determining the ineffective aspects of the hedge, is established at the inception of the hedged instrument. Designation is established at the inception of a derivative, but redesignation is permitted. For derivatives designated as fair value hedges, changes in fair value are recognized in earnings. If the fair value hedge is fully effective, the change in fair value of the hedged item attributable to the hedged risk, is adjusted to fair value and is recognized in earnings. The Company operates internationally, therefore its earnings, cash flows and financial positions are exposed to foreign currency risk from foreign currency denominated receivables and payables. These items are denominated in various foreign currencies, including Euros, British Pounds, Japanese Yen, Singapore Dollars and Chinese Yuan Renminbi. Management believes it is prudent to minimize the risk caused by foreign currency fluctuation. Management minimizes the risk by hedging the majority of all foreign currency obligations by purchasing future foreign currency contracts (futures) with one of its financial institutions. Futures are traded on regulated U.S. and 35 international exchanges and represent commitments to purchase or sell a particular foreign currency at a future date and at a specific price. Since futures are purchased for the exact amount of foreign currency needed to pay for specific purchase orders, the Company feels that it eliminates all risks relating to foreign currency fluctuation. The Company takes delivery of all futures, which have been designated as fair value hedges under SFAS 133, to pay suppliers in the appropriate currency. The difference between the fair value and nominal amounts of the foreign currency contracts and the related commitments have been recorded as an asset with a corresponding liability in the accompanying consolidated balance sheet at June 30, 2003 in the amount of \$99. The hedge contracts flow through cost of goods sold in the consolidated statement of income as inventory is sold. Senior management and members of the financial department continually monitor foreign currency risks and the use of this derivative instrument.

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

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

(3) BUSINESS ACQUISITIONS On March 26, 2001, the Company acquired (i) the distribution business of the Schweizerhall Pharma division of Schweizerhall Holding AG, a Switzerland corporation and (ii) certain assets relating to the Pharmaceutical Ingredients business of Schweizerhall, Inc., a New Jersey corporation, and a wholly owned subsidiary of Schweizerhall Holding AG (collectively, "Schweizerhall Pharma"). Schweizerhall Pharma's distribution business is an international pharmaceutical distribution business with offices located in: Hamburg, Germany; Wormerveer, The Netherlands (a suburb of Amsterdam); Paris, France; Piscataway, New Jersey; Singapore; Mumbai, India; and Hong Kong. Its principal activities are the supply of Active Pharmaceutical Ingredients and Advanced Intermediates. The total purchase price for the Schweizerhall Pharma acquisition was \$25,980. This amount consisted of 600 restricted shares of the Company's Common Stock, the assumption of \$8,966 of Schweizerhall Holding AG debt, \$5,973 in cash, the issuance of notes of \$4,626 and acquisition costs of \$1,240. The quoted market price of the Common Stock on March 26, 2001 of \$8.625 per share,

was used to approximate the fair value of the 600 shares issued, which amounted to \$5,175. In connection with the closing of the acquisition the Company assumed certain debt of Schweizerhall Holding AG in excess of the amount of the purchase price. As a result, at closing Schweizerhall Holding AG paid \$7,162 to the Company. Subsequent to March 31, 2001 the Company paid Schweizerhall Holding AG \$8,987 and was released from a portion of the debt assumed at closing. The notes payable of \$4,626 issued at closing bear interest at 3%. Principal and interest are payable monthly. Monthly principal payments are determined by the lesser of the outstanding principal balance or the book value of certain inventory (as defined in the note agreement) sold in the preceding month. These notes were paid in full during the year ended June 30, 2002. The acquisition was accounted for as a purchase and, accordingly, the cost of the acquisition was allocated to the assets acquired, based upon their estimated fair values at the date of acquisition. The results of operations of Schweizerhall Pharma have been included in the accompanying consolidated statement of income from the date of acquisition. During the quarter ended September 30, 2001, the Company received \$1,571 from the previous owners of Schweizerhall Pharma in settlement of certain accounts receivable balances, which was recorded as a reduction to goodwill. 36 The excess of cost over the fair value of assets acquired (goodwill) amounted to \$6,393. Prior to the adoption of SFAS 142 (Note 7) effective July 1, 2002, goodwill was amortized on a straight-line basis over a period of twenty years. Amortization of goodwill related to the Schweizerhall Pharma acquisition amounted to \$326 for the year ended June 30, 2002. In accordance with SFAS 142, there was no amortization of goodwill for the year ended June 30, 2003. The non-competition agreements are valued at \$300 and are being amortized over three years, the term of the non-competition agreements. An intangible asset related to customer contracts is valued at \$600 and is being amortized over five years. The allocation of the purchase price has been completed. During fiscal 2003, the Company reduced goodwill in the amount of \$165 as a result of the utilization of certain net operating loss carry-forwards that were previously reserved for in purchase accounting. The purchase agreement provides for two additional payments pertaining to inventory and tax savings. An additional payment for \$2,639 was made in May 2002 in connection with inventory which has been allocated to the additional inventory purchased and which has been included in the cash paid of \$5,973. Any payments made in connection with the tax savings adjustment will be recorded as additional goodwill. In connection with the March 26, 2001 Schweizerhall Pharma acquisition, the Company recorded liabilities for employee severance and for operating lease payments as a result of exit plans formulated as of the acquisition date. The severance accrual relates to involuntary termination of administration and middle management personnel from the acquired operations. During fiscal 2002, the Company refined its estimation of severance to include certain additional administrative and middle management employees. The operating lease payment relates to equipment and facilities leases assumed by the Company. Additional goodwill recorded by the Company amounted to \$519 and \$44 for employee severance and operating lease payments, respectively, as a result of the Company's exit plans. Amounts accrued represent management's best estimate of the cost to exit the equipment and facilities leases, including lease payments and termination costs, net of recoverable amounts. All exit plan liabilities were paid during fiscal 2002. The following unaudited condensed pro forma financial information of the Company for the year ended June 30, 2001 includes the consolidated results of operations of the Company as if the acquisition of Schweizerhall had occurred on July 1, 2000: (unaudited) 2001 ---- Net revenue \$238,963 Net earnings 1,334 Net earnings per diluted share (1) 0.14 (1) The per share information has been adjusted for a 3-for-2 split of the common stock, paid January 2, 2003. The unaudited condensed pro forma financial information includes adjustments to the Company's historical results to reflect incremental amortization of goodwill and the non-competition agreement and customer contracts, reduced interest income generated from cash that was used for acquisition, additional interest expense and income tax adjustments. The unaudited pro forma consolidated financial statements do not purport to be indicative of the operating results of financial position that would have been achieved had the acquisition taken place on the date indicated or the results that may be obtained in the future. (4) INVESTMENTS A summary of trading securities, classified as short-term, follows: June 30, 2003 June 30, 2002 ----- Cost Cost Fair Value Basis Fair Value Basis ----- Corporate securities \$ 877 \$ 594 \$ 951 \$ 594 The change in the net unrealized holding gains (losses) on trading securities was \$(74), \$(37) and \$ 53 for fiscal 2003, 2002 and 2001, respectively. 37 There were no held-to-maturity securities as of June 30, 2003, as the Company's held-to-maturity securities matured in March 2003 resulting in proceeds of \$369. A summary of held-to-maturity securities as of June 30, 2002 follows: June 30, 2002 ----- Gross Gross Amortized Unrealized Unrealized Fair Cost or Cost Gains Losses Value ----- Held-to-maturity securities: Short-term investments: Municipal obligations \$369 \$ - \$ - \$369 During fiscal 2001, the Company sold \$7,900 of

held-to-maturity securities before their maturity date and realized a gain of \$40. The proceeds from the sale of these securities were used in the acquisition of the Schweizerhall Pharma business (note 3).

(5) INVENTORY Inventory consists of the following:

	June 30 2003	June 30 2002
Finished goods	\$41,221	\$35,897
Work in process	157	134
Raw materials	318	240
Total	\$41,696	\$36,271

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 (6) NOTES RECEIVABLE The Company currently holds seven notes receivable with outstanding balances aggregating \$1,129 and \$813 at June 30, 2003 and 2002, respectively, which have arisen from sales of property. The notes are either secured by a first mortgage on the real property sold or collateralized by a security interest in the asset sold. The notes range in length from four to nineteen years and pay interest at a fixed rate. The range of fixed rates on the notes is 4.0% to 9.5%. Included in current assets are notes receivable due within one year totaling \$113 and \$122 at June 30, 2003 and 2002, respectively.

(7) BUSINESS COMBINATIONS AND GOODWILL AND OTHER INTANGIBLE ASSETS The Company has adopted the provisions of SFAS 141 and 142 as of July 1, 2002 (note 2). The Company has evaluated its existing goodwill that was acquired in prior purchase business combinations and has determined that no adjustment or reclassification to intangible assets at July 1, 2002 is required in order to conform to the new criteria in SFAS 141 for recognition apart from goodwill. As of June 30, 2003 and June 30, 2002, the Company had intangible assets subject to amortization of \$1,020 and \$1,287, respectively, and related accumulated amortization of \$608 and \$586, respectively, which pertained to customer lists and covenants not to compete and have been included in other assets on the accompanying consolidated balance sheets. Amortization expense for intangible assets subject to amortization amounted to \$241 and \$352 for the year ended June 30, 2003 and 2002, respectively. The estimated aggregate amortization expense for intangible assets subject to amortization for each of the succeeding years ended June 30, 2004 through June 30, 2006 are as follows: 2004: \$202; 2005: \$120; 2006: \$90. As required by SFAS 142, the Company performed impairment tests on goodwill as of July 1, 2002. As a result of the impairment tests, the Company recorded a goodwill impairment charge of \$1,873 which has been included as a cumulative effect of an accounting change in the accompanying consolidated statement of income for the year ended June 30, 2003. Under SFAS 142, goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The Company estimated the fair value of its reporting units by using a combination of discounted cash flow analyses and comparisons with the market values of similar publicly-traded companies. The Company's \$1,873 impairment charge was related to the impairment of the goodwill associated with CDC Products Corp. ("CDC"). CDC was acquired by the Company during 38 fiscal 1999. Due to an increase in competition from local sanitary supply companies in the markets CDC operates in, recent operating profits and cash flows were lower than expected. Based on that trend, the earnings forecast for the next five years was revised. During the year ended June 30, 2003, a goodwill impairment charge of \$1,873 was recognized in the CDC reporting unit. The fair value of that reporting unit was determined by using a combination of discounted cash flow analyses and comparisons with the market values of similar publicly-traded companies. The revised fair value of this unit was allocated to the assets and liabilities of the business unit to arrive at an implied fair value of goodwill, based upon known facts and circumstances, as if the acquisition occurred currently. The following table displays a roll forward of the carrying amount of goodwill for the year ended June 30, 2003, by business segment:

	Institutional Sanitary Supplies	Consolidated Health Sciences	Other	Totals
Balance at 6/30/02	\$7,003	\$2,818	\$9,821	
Adjustment for tax savings from acquired NOL (165) - (165)				
Impairment losses - (1,873)	(1,873)			
Balance at 6/30/03	\$6,838	\$945	\$7,783	

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 39 Goodwill amortization for the years ended June 30, 2002 and 2001 was \$539 and \$275, respectively. The following table shows the results of operations as if SFAS No. 142 was applied to prior periods:

Year Ended June 30,	2003	2002	2001
Income before cumulative effect of accounting change, as reported	\$9,468	\$4,945	\$4,245
Add back: Goodwill amortization, net of tax - 400	205		
Adjusted income before cumulative effect of accounting change	\$9,468	\$5,345	\$4,450
Basic income per common share:			
Income before cumulative effect of accounting change, as reported	\$ 0.96	\$ 0.51	\$ 0.46
Goodwill amortization, net of tax - 0.04	0.02		
Adjusted income before cumulative effect of accounting change	\$ 0.96	\$ 0.55	\$ 0.48
Diluted income per common share:			
Income before cumulative effect of accounting change, as reported	\$ 0.94	\$ 0.50	\$ 0.46
Goodwill amortization, net of tax - 0.04	0.02		
Adjusted income before cumulative effect accounting change	\$ 0.94	\$ 0.54	\$ 0.48

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 (8) ENVIRONMENTAL REMEDIATION During fiscal 1993 the Company announced the closing of its manufacturing subsidiary located in Carlstadt, New Jersey. At the same time an environmental consultant was engaged by the Company to determine the extent of contamination on the site and develop a plan of remediation. Based on the initial estimates from the

consultant a liability of \$1,500 was established in fiscal 1993. During fiscal 1997, after additional testing was completed, the Company received a revised estimate from the consultant and an additional liability of \$800 was recorded. At June 30, 2002, the remaining liability was \$1,284. During fiscal 2003, based on continued monitoring of the contamination on the site and the current proposed plan of remediation, the Company received a revised estimate from the consultant, which estimated that the remaining costs of the remediation could be an amount between \$1,550 and \$3,200. During fiscal 2003, the Company recorded an additional liability in the amount of \$266 resulting in a liability as of June 30, 2003 in the amount of \$1,550. However, these matters, if resolved in a manner different from those assumed in current estimates could have a material adverse effect on financial condition, operating results and cash flows when resolved in a future reporting period. Other than the remediation associated with the Carlstadt, New Jersey facility, the Company is not aware of any material environmental liabilities. (9) FINANCING

ARRANGEMENTS In May 2002, the Company entered into a \$15,000 revolving credit agreement with a financial institution which expires June 30, 2004. Under the credit agreement, the Company may obtain credit through direct borrowings and letters of credit. The obligations of the Company under the credit agreement are guaranteed by certain of the Company's subsidiaries and is secured by sixty-five percent of the capital of certain non-domestic subsidiaries which the Company owns. There is no borrowing base on the credit agreement. Interest under the credit agreement is at LIBOR plus 1.50%, which was 2.62% and 3.34% at June 30, 2003 and 2002, respectively. The credit agreement contains several financial covenants requiring, among other things, minimum levels of debt service and tangible net worth. The Company is also subject to certain restrictive debt covenants including liens, limitations on indebtedness, guarantees, sale of assets, sales of receivables, and loans and investments. In March 2003, the Company obtained a waiver to its credit agreement which allowed it to guarantee an obligation of one of its wholly-owned subsidiaries to a vendor under a distribution agreement. The Company was in compliance with all covenants at June 30, 2003. 40 At June 30, 2003 and 2002, the Company had available lines of credit with foreign financial institutions totaling \$16,588 and \$14,385, respectively. The Company entered into the agreements with foreign banks as part of the Schweizerhall Pharma acquisition. The Company has issued a cross corporate guarantee to the foreign banks. Short term loans under these agreements bear interest at LIBOR plus 0.75%, which was 1.87% and 2.59% at June 30, 2003 and 2002, respectively. The Company is not subject to any financial covenants under these arrangements. Under the above financing arrangements, the Company had short-term bank loans of \$3,286 and \$1,199 in letters of credit leaving an unused facility of \$27,103 at June 30, 2003. For June 30, 2002 the Company utilized \$7,336 in short-term loans and \$1,544 in letters of credit leaving an unused facility of \$20,505. The weighted average interest rate on short-term loans outstanding for the years ended June 30, 2003 and 2002, was 4.80% and 4.70% respectively. (10) NET INCOME PER

COMMON SHARE A reconciliation between the numerators and denominators of the basic and diluted income per share computation for net income follows: 2003 2002 2001 ---- ---- ---- Income before cumulative effect of accounting change \$9,468 \$4,945 \$4,245 Cumulative effect of accounting change 1,873 - - - - - Net income available for common shareholders \$7,595 \$4,945 \$4,245 ===== Weighted average common shares (basic)(a) 9,909 9,779 9,184 Effect of dilutive securities: Stock options (a) 208 54 38 ----- Weighted average common and potential common shares outstanding (diluted)(a) 10,117 9,833 9,222 ===== Basic income per common share(a): Income before cumulative effect of accounting change \$ 0.96 \$ 0.51 \$ 0.46 Cumulative effect of accounting change 0.19 - - - - - Net income \$ 0.77 \$ 0.51 \$ 0.46 ===== Diluted income per common share(a): Income before cumulative effect of accounting change \$ 0.94 \$ 0.50 \$ 0.46 Cumulative effect of accounting change 0.19 - - - - - Net income \$ 0.75 \$ 0.50 \$ 0.46 ===== (a) Share and per share information have been adjusted for a 3-for-2 split of the common stock, paid January 2, 2003. In fiscal 2003, 2002, and 2001, employee stock options of 240, 353, and 600, respectively, were not included in the diluted income per common share calculation because their effect would have been anti-dilutive. (11) STOCK BASED

COMPENSATION PLANS In September 2002, the Company adopted the Aceto Corporation 2002 Stock Option Plan (2002 Plan), which was ratified by the Company's shareholders at the December 2002 Annual Meeting. Under the 2002 Plan, options or restricted stock to purchase up to 750 shares of the Company's common stock may be granted by the Company to officers, directors, employees and agents of the Company. The exercise price per share shall be not less than the fair market value of Aceto common stock on the date of grant and 41 each option may not become exercisable less than six months from the date it is granted. Restricted stock may be granted to an eligible participant in lieu of a portion of any annual cash bonus earned by such participant. Such award may have a premium in shares greater than the portion of bonus paid in restricted stock. The award vests ratably over a period of years as determined

by the Board. The premium vests when the award is fully vested, provided that the participant is in the employ of the Company when vesting occurs. In December 2002, the Company granted 470 options to employees and directors under the Plan at an exercise price of \$9.63 which was equal to the fair market value of the common stock on the date of grant. 397 of these options vest in full on the fifth anniversary of the date of grant subject, however, to acceleration beginning after one year from the date of grant, if the publicly traded price of the Company's common stock exceeds certain levels for a certain number of trading days. The remaining 73 options vest on the first anniversary of the date of grant. The options expire no later than ten years from the date of grant. As of June 30, 2003, there were 281 shares of common stock available for grant as either options or restricted stock under the 2002 Plan. In December 1998, the Company adopted the Aceto Corporation 1998 Omnibus Equity Award Plan (1998 Plan). In accordance with the 1998 Plan the Company's Board of Directors (Board) may grant up to 750 shares of common stock in the form of stock options or restricted stock to eligible participants. The exercise price per share, determined by the Board, for options granted cannot be less than the fair market value of the stock on the date of grant. The options vest as determined by the Board and expire no later than ten years from the date of grant. Restricted stock may be granted to an eligible participant in lieu of a portion of any annual cash bonus earned by such participant. Such award may have a premium in shares greater than the portion of bonus paid in restricted stock. The award vests ratably over a period of years as determined by the Board. The premium vests when the award is fully vested, provided that the participant is in the employ of the Company when vesting occurs. Under the 1998 Plan, there were 67 and 72 shares of common stock available for grant as either options or restricted stock at June 30, 2003 and 2002, respectively. Under the terms of the Company's 1980 Stock Option Plan (1980 Plan), options may be issued to officers and key employees. The exercise price per share can be greater or less than the market value of the stock on the date of grant. The options vest either immediately or over a period of years as determined by the Board of Directors and expire no later than five or ten years from the date they are fully vested. Under the 1980 Plan, options to purchase 668 and 632 shares of common stock were available for grant at June 30, 2003 and 2002, respectively. The Board does not intend to issue additional options from this Plan. The following tabulations summarize the shares of common stock under option for all plans at June 30, 2003, 2002 and 2001, and the activity with respect to options for the respective years then ended: Shares Weighted average subject to exercise price option per share ----- Balance at June 30, 2000 1,002 \$ 6.63 Granted 106 6.42 Exercised (35) 5.21 Forfeited/lapsed (104) 6.69 ----- Balance at June 30, 2001 969 \$ 6.66 Granted 182 6.56 Exercised (27) 5.27 Forfeited (93) 6.33 ----- Balance at June 30, 2002 1,031 \$ 6.71 Granted 470 9.63 Exercised (485) 6.98 Forfeited/lapsed (53) 6.66 ----- Balance at June 30, 2003 963 \$ 7.96 Options exercisable at June 30, 2003, 2002 and 2001 were 359, 674 and 537, respectively. The weighted average exercise price for options exercisable at June 30, 2003, 2002 and 2001 was \$6.48, \$6.93 and \$6.72, respectively. At June 30, 2003, 42 outstanding options had expiration dates ranging from December 10, 2008 to December 31, 2015. Under the 1980 Plan, during the period options become exercisable, compensation is charged to operations for the excess of fair market value over the option price at the date of grant. Such charges to operations were \$-0-, \$-0- and \$13 in fiscal 2003, 2002 and 2001, respectively. Under the 2002 Plan and the 1998 Plan, compensation is recorded for the value of restricted stock granted. There were 19, 36 and 29 shares of restricted stock granted during fiscal 2003, 2002 and 2001, respectively. Such charges to operations were \$225, \$214 and \$199 in fiscal 2003, 2002 and 2001, respectively. Summarized information about stock options outstanding and exercisable at June 30, 2003 was as follows: Outstanding Exercisable Exercise Number of Average Average Number of Average Price Range Shares Life(1) Price(2) Shares Price(2) ----- \$6.00 - 6.99 439 9.0 \$6.14 304 \$6.20 7.00 - 8.50 55 5.6 8.28 55 8.28 8.51 - 9.63 469 9.5 9.63 - - (1) Weighted average contractual life remaining, in years. (2) Weighted average exercise price. The per share weighted average fair value of stock options granted during 2003, 2002 and 2001 was \$5.51, \$2.18 and \$2.22, respectively, on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: Risk-free Date of Expected Expected interest Dividend Grant volatility(%) life(years) rate(%) yield(%) ----- 2003 12/05/02 40 7.5 3.79 2.22 2002 12/06/01 20 7.5 5.46 3.25 2001 10/25/00 20 7.5 5.68 3.08 12/17/00 20 7.5 5.31 3.29 3/27/01 20 7.5 5.01 3.48 4/05/01 20 7.5 4.97 3.53 5/08/01 20 7.5 5.24 3.45 (12) INTEREST AND OTHER INCOME Interest and other income earned during fiscal 2003, 2002 and 2001 were comprised of the following: 2003 2002 2001 ---- Dividends \$ 139 \$ 196 \$ 128 Interest 458 212 468 Net gain (loss) on investments (74) (37) 53 Royalty income - - 354 Miscellaneous 190 39 223

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----- \$ 713 \$ 410 \$ 1,226 ===== (13) INCOME TAXES The components of income before the provision for income taxes are as follows: 2003 2002 2001 ---- Domestic operations \$ 4,912 \$ 4,922 \$ 6,503 Foreign operations 8,454 2,456 283 ----- \$13,366 \$ 7,378 \$ 6,786 =====
===== The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at June 30, 2003 and 2002 are presented below: 43 2003 2002 ----- Deferred tax assets: Accrued environmental remediation liabilities not currently deductible \$ 588 \$ 502 Accrued retirement plan 396 384 Accrued compensation 133 391 Additional costs inventoried for tax purposes 101 120 Allowance for doubtful accounts receivable 219 235 Differences in depreciation of property and equipment 92 73 Differences in amortization of intangible assets 64 45 Accrued professional services 15 39 Net operating loss carry forwards 5,537 1,870 ----- Total gross deferred tax assets 7,145 3,659 Valuation allowances (5,537) (1,870) ----- Total net deferred tax assets 1,608 1,789 -----
Deferred tax liabilities: Unrealized gain on investments (107) (139) Goodwill (93) (46) ----- Total gross deferred tax liabilities (200) (185) ----- Net deferred tax assets \$1,408 \$1,604 ===== The net change in the total valuation allowance for the year ended June 30, 2003 was an increase of \$3,667 resulting from a valuation allowance recorded for net operating losses in certain foreign jurisdictions. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances primarily for net operating loss carryforwards in certain foreign countries. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the net deferred tax assets recognized at June 30, 2003, the Company will need to generate future domestic taxable income of approximately \$4,819. Domestic taxable income for fiscal 2003 and 2002 was approximately \$5,288 and \$4,734, respectively. Based upon the level of historical taxable income and projections for taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. There can be no assurance, however, that the Company will generate any earnings or any specific level of continuing earnings in the future. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. Deferred taxes have not been provided on undistributed earnings of foreign subsidiaries since substantially all of these earnings are expected to be permanently reinvested in foreign operations. Determination of the amount of unrecognized deferred U.S. income tax liabilities and potential foreign tax credits is not practical to calculate because of the complexity of this hypothetical calculation. Reconciliation of the statutory Federal income tax rate and the effective tax rate for the fiscal years ended June 30, 2003, 2002 and 2001 follows: 44 2003 2002 2001 ---- Federal statutory tax rate 34.0% 34.0% 34.0% State and local taxes, net of Federal income tax benefit 2.2 2.6 2.7 Foreign tax rate differential (9.9) (4.9) 0.5 Other 2.9 1.3 0.2 ----- Effective tax rate 29.2% 33.0% 37.4% =====
At June 30, 2003, the Company had net operating loss carry forwards for foreign income tax purposes of approximately \$19,500 which are available to offset future foreign taxable income, if any, of which \$4,767 will expire from the year 2004 through the year 2007 and others which have no expiration date. (14) Supplemental Cash Flow Information Cash paid for interest and income taxes during fiscal 2003, 2002 and 2001 was as follows: 2003 2002 2001 ---- Interest paid \$ 560 \$ 586 \$ 248 Income taxes paid 4,234 1,405 3,642 In connection with the acquisition of Schweizerhall Pharma in March 2001, the Company assumed debt of \$8,966, issued \$4,626 of notes payable and issued 600 common shares from treasury stock at an average cost of \$9.84 each. In connection with the settlement of arbitration (note 19) in the fourth quarter of fiscal 2001, the Company recorded a reduction to long term liabilities and goodwill for \$360. (15) RETIREMENT PLANS The Company has retirement plans in which employees are eligible to participate. The Company's annual contribution per employee, which is at management's discretion, is based on a percentage of the employee's compensation. The Company's provisions for contributions amounted to \$1,017, \$895 and \$864 in fiscal 2003, 2002 and 2001, respectively. (16) SEGMENT INFORMATION The Company, prior to fiscal 2002, was organized into six reportable segments, organized by product. Effective for the fiscal year ended June 30, 2002, the two segments formerly known as Industrial Chemicals and Organic Intermediates & Colorants have been combined into a segment called Chemicals and Colorants. Effective for the fiscal year ended June 30, 2003, the two segments formerly known as Pharmaceuticals, Biochemicals & Nutritionals

and Pharmaceutical Intermediates & Custom Manufacturing have been combined into a segment called Health Sciences. The amounts previously reported for the former segments have been combined accordingly. Therefore, the Company's four reportable segments, organized by product are as follows: (1) Agrochemicals, whose products include herbicides, fungicides and insecticides, as well as a sprout inhibitor for potatoes, (2) Chemicals and Colorants, whose products include a variety of specialty chemicals used in plastics, resins, adhesives, coatings, food, flava, fragrance, cosmetics, metal finishing, electronics and many other areas in addition to dye and pigment intermediates used in the color-producing industries like textiles, inks, paper and coatings, as well as intermediates used in the production of agrochemicals; (3) Health Sciences, which include the active ingredients for generic pharmaceuticals, vitamins and nutritional supplements, as well as products used in preparation of pharmaceuticals, primarily by major innovative drug companies and (4) Institutional Sanitary Supplies & Other, whose products include cleaning solutions, fragrances and deodorants used by commercial and industrial establishments. The Company does not allocate assets by segment. The Company's chief decision maker evaluates performance of the segments based on gross profit.

45 Institutional Sanitary Agro- Chemicals Supplies Consolidated chemicals & Colorants Health Sciences & Other Totals 2003		2002		2001	
Net sales	\$14,356 91,579 159,858 5,483	\$271,276	\$ 4,123 12,673 29,569 2,418	\$ 48,783	Unallocated cost of sales(1) 3,487
Net gross profit	\$ 45,296	2002	Net sales	\$13,540 90,494 120,021 5,274	\$229,329
Gross Profit	\$ 4,215 13,502 20,240 2,294	\$ 40,251	Unallocated cost of sales(1)	2,970	Net gross profit
Unallocated cost of sales(1)	5,365	Net gross profit	\$ 28,617	(1) Represents freight and storage costs that are not allocated to a segment.	46 Net sales and long-lived assets by location as of and for the years ended June 30, 2003, 2002 and 2001 were as follows:

47 (17) FINANCIAL INSTRUMENTS DERIVATIVE FINANCIAL

INSTRUMENTS At June 30, 2003 and 2002 the Company had future foreign exchange contracts that have a notional amount of \$3,431 and \$28, respectively. The contracts have varying maturities extending to November 2003. At June 30, 2003 and 2002 the Company had not hedged open purchase commitments of approximately \$51 and \$1,185, respectively. For fiscal 2003, 2002 and 2001, gains and losses on foreign currency transactions, including terminated hedges that occurred prior to the transaction date, were not material. The Company is exposed to credit losses in the event of non-performance by the financial institutions, who are the counter parties, on its future foreign currency contracts. The Company anticipates, however, that the financial institutions will be able to fully satisfy their obligations under the contracts. The Company does not obtain collateral to support financial instruments, but monitors the credit standing of the financial institution. OFF-BALANCE SHEET RISK Commercial letters of credit are issued by the Company during the ordinary course of business through major domestic banks as requested by certain suppliers. The Company had open letters of credit of approximately \$1,199 and \$1,544 as of June 30, 2003 and 2002, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to non-performance by the counter parties to these agreements. FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying values of all financial instruments classified as a current asset or current liability are deemed to approximate fair value because of the short maturity of these instruments. The fair value of foreign currency contracts (used for hedging purposes) was estimated by obtaining quotes from brokers and the difference between the fair value and contract value was \$99. The difference between the fair value of long-term notes receivable and their carrying value at both June 30, 2003 and 2002 was not material. The fair value of the Company's notes receivable was based upon current rates offered for similar financial instruments to the Company. BUSINESS AND CREDIT

CONCENTRATION Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables. The Company's customers are dispersed across many industries and are located throughout the United States as well as in Mexico, Brazil, Malaysia, France, Canada, Germany, Australia, the United Kingdom, The Netherlands and others. The Company estimates an allowance for doubtful accounts based upon the credit worthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors could affect the Company's estimate of this allowance. The Company as a policy does not require

collateral from its customers. At June 30, 2003, five customers accounted for 17% of net trade accounts receivable. At June 30, 2002, five customers accounted for 18% of net trade accounts receivable concentration. At June 30, 2003 and 2002, the top five customers accounted for 20% and 16%, respectively, of net sales. No single product accounted for as much as 10% of net sales in fiscal 2003, 2002 or 2001. One supplier accounted for 10% of purchases in fiscal 2003. No supplier accounted for as much as 10% of total purchases in fiscal 2002 or 2001. 48 During the fiscal years ended June 30, 2003 and 2002, approximately 59% and 60%, respectively, of the Company's purchases of chemicals came from Asia and approximately 29% and 25%, respectively, from Europe. The Company maintains operations located outside of the United States. Net assets located in Europe and Asia approximate \$10,238 and \$10,378, respectively at June 30, 2003. (18) COMMITMENTS AND CONTINGENCIES (a) A subsidiary of the Company markets certain agricultural chemicals which are subject to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). FIFRA requires that test data be provided to the Environmental Protection Agency (EPA) to register, obtain and maintain approved labels for pesticide products. The EPA requires that follow-on registrants of these products compensate the initial registrant for the cost of producing the necessary test data on a basis prescribed in the FIFRA regulations. Follow-on registrants do not themselves generate or contract for the data. However, when FIFRA requirements mandate the generation of new test data to enable all registrants to continue marketing a pesticide product, often both the initial and follow-on registrants establish a task force to jointly undertake the testing effort. The Company is presently a member of two such task force groups and may be required to make additional payments in the future. (b) The Company and its subsidiaries are subject to various claims which have arisen in the normal course of business. The impact of the final resolution of these matters on the Company's results of operations or liquidity in a particular reporting period is not known. Management is of the opinion, however, that the ultimate outcome of such matters will not have a material adverse effect upon the Company's financial condition or liquidity. (c) In 2002 a vendor made allegations that the Company breached a purchase contract. As a result, the Company recorded a liability during fiscal 2003 of \$450. At June 30, 2003 the remaining liability is \$450. In the opinion of management, based on its knowledge of the facts and discussions with counsel, the ultimate outcome of this allegation is not expected to have a material adverse effect on the Company's consolidated financial position, although the resolution in any reporting period of this matter could have a significant impact on the Company's results of operations for that period. (d) The Company currently leases office facilities in the United States, The Netherlands, Germany, France, China and Singapore. In addition, a domestic subsidiary leases a manufacturing facility under an operating lease expiring December 2009. At June 30, 2003, the future minimum lease payments in the aggregate and for each of the five succeeding years are as follows: Fiscal year Amount ----- 2004 \$ 1,418 2005 1,350 2006 1,316 2007 1,212 2008 1,136 Thereafter 2,941 ----- \$ 9,373 ===== Total rental expense amounted to approximately \$1,444, \$1,471 and \$983 for fiscal 2003, 2002 and 2001, respectively. (e) In February 2001, the Company entered into a three-year contract with a vendor, commencing September 1, 2001, to purchase specified amounts of a certain product to be sold to a customer during the life of the contract. At June 30, 2003, future minimum purchases required to be 49 made under the contract in the aggregate and for each of the five succeeding years are as follows: Fiscal Year Amount 2004 \$12,491 2005 835 2006 - 2007 - 2008 - Thereafter - ----- \$13,326 ===== Total purchases under the contract amounted to approximately \$0, \$3,024 and \$0 for fiscal 2003, 2002 and 2001, respectively. (19) SETTLEMENT OF ARBITRATION During the fourth quarter of fiscal 2001, the Company received a decision from the arbitrators regarding the claims made by the Company and previous owner of CDC. The decision denied all claims made against the Company by the previous owner and reduced the purchase price of CDC by \$360. As a result the Company recorded the reduction of the outstanding liability owed to the previous owner by \$360 and recorded a reduction to goodwill for the same amount. The liability was paid in full as of August 2002. (20) IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS In July 2002, the FASB issued No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 will spread out the reporting of expenses related to restructurings initiated after 2002, because commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Instead, companies will record exit and disposal costs when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The Company adopted the provisions of SFAS 146 as of January 1, 2003. The adoption of this statement did not have a significant impact on the Company's consolidated financial statements. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as

originally defined by SFAS No. 123, "Accounting for Stock-Based Compensation." Additionally, SFAS 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The transitional requirements of SFAS 148 are effective for all financial statements for fiscal years ending after December 15, 2002. The Company adopted the disclosure portion of this statement for the fiscal quarter ended March 31, 2003. The application of the disclosure portion of this standard had no impact on the Company's consolidated financial position or results of operations. The FASB recently indicated that it will require stock-based employee compensation to be recorded as a charge to earnings pursuant to a standard on which it is currently deliberating. The FASB anticipates issuing an Exposure Draft in the fourth quarter of 2003 and a final statement in the second quarter of 2004. The Company will continue to monitor the FASB's progress on the issuance of this standard as well as evaluate the Company's position with respect to current guidance. 50 In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company does not believe that the adoption of SFAS No. 149 will have a material impact on its consolidated financial statements. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liability and equity in its statement of financial position. SFAS No. 150 is effective for new or modified financial instruments beginning July 1, 2003 and for existing instruments beginning August 1, 2003. The Company does not believe that the adoption of SFAS No. 150 will have a material impact on its consolidated financial statements. In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" ("Int. No. 45"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. Int. No. 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of Int. No. 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company has not entered into any such guarantees and therefore the adoption of this standard did not impact the Company's consolidated financial statements. In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("Int. No. 46") an interpretation of ARB No. 51. Int. No. 46 addresses consolidation by business enterprises of variable interest entities. Int. No. 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. Int. No. 46 applies in the first year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company is in the process of determining the impact of implementing Int. No. 46 on its consolidated financial statements. (21) UNAUDITED QUARTERLY FINANCIAL DATA The following is a summary of the unaudited quarterly results of operations for the years ended June 30, 2003 and 2002. QUARTERLY FINANCIAL DATA (Unaudited) (In thousands except per share amounts) Year Ended June 30, 2003 Quarter Ended Sept.30,2002 Dec.31,2002 Mar.31,2003 June 30,2003 ----- Net sales \$68,022 \$64,633 \$70,561 \$68,060 Gross profit 11,245 11,006 11,794 11,251 Income before cumulative effect of accounting change 2,323 2,328 2,411 2,406 Net income 450(2) 2,328 2,411 2,406 Income before cumulative effect of accounting change per common share - diluted (1) 0.24 0.23 0.24 0.23 Net income per common share - diluted (1)(2) 0.05(2) 0.23 0.24 0.23 51 Year Ended June 30, 2002 Quarter Ended Sept.30,2001 Dec.31,2001 Mar.31,2002 June 30,2002 ----- Net sales \$47,641 \$55,365 \$61,594 \$64,729 Gross profit 7,246 9,466 9,757 10,812 Net income 535 1,243 1,523 1,644 Net income per common share - diluted (1) 0.05 0.13 0.15 0.17 (1) Adjusted for a 3-for-2 stock split of the common stock, paid January 2, 2003. (2) Reflects a charge of \$1,873 for a cumulative effect of an accounting change resulting from an impairment of goodwill which was determined to be required upon the Company's adoption of SFAS 142. Net income per common share calculation for each of the quarters is based on weighted average number of shares outstanding in each period. Therefore, the sum of the quarters in a year does not necessarily equal the year's net income per common share. 52 Schedule II ACETO CORPORATION AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS For the Years Ended June 30, 2003, 2002 and

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2001 (dollars in thousands) Charged Balance at to costs Charged Balance beginning and to other at end Description of year expenses accounts Deductions of year ----- Year ended June 30, 2003: Allowance for doubtful accounts \$ 657 \$ 446 - \$ 164(a) \$ 939 === === === === Year ended June 30, 2002: Allowance for doubtful accounts \$ 316 \$ 566 - \$ 225(a) \$ 657 === === === === Year ended June 30, 2001: Allowance for doubtful accounts \$ 239 \$ 307 - \$ 230(a) \$ 316 === === === === (a) Specific accounts written off as uncollectible, net of recoveries. 53 EXHIBIT INDEX 3.1 Restated Certificate of Incorporation (incorporated by reference to Exhibit 4(a)(iii) to Registration Statement No. 2-70623 on Form S-8 (S-8 2-70623)). 3.2 Certificate of Amendment dated November 21, 1985 to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(ii) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1986). 3.3 By-laws(incorporated by reference to Exhibit 3(iii)(c) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1998). 10.1 Profit Sharing Plan, as amended and restated effective July 1, 1989 (incorporated by reference to Exhibit 10(iii)(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995). 10.2 401(k) Plan, effective August 1, 1997, (incorporated by reference to Exhibit 10 (iii) to the Company's Annual Report on Form 10-K for the year ended June 30, 1998). 10.3 Supplemental Executive Retirement Plan, effective June 30, 1985, as amended and restated, effective July 1, 1992 (incorporated by reference to Exhibit 10(iv)(a) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993). 10.4 Aceto Corporation Stock Option Plan (as Amended and Restated effective as of September 19, 1990) (and as further Amended effective June 9, 1992) (incorporated by reference to Exhibit 10(v)(b) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1992). 10.5 1998 Aceto Corporation Omnibus Equity Award Plan (incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999). 10.6 Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 10(vi) to the Company's Annual Report Form 10-K for the fiscal year ended June 30, 2000). 10.7 Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, NY dated April 28, 2000 (incorporated by reference to Exhibit 54 10(vi)(b) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.8 Lease between CDC Products Corp. and Seaboard Estates for manufacturing and office space at 1801 Falmouth Avenue, New Hyde Park, NY dated October 31, 1999 (incorporated by reference to Exhibit 10(vi)(c) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.9 Stock Purchase Agreement among Windham Family Limited Partnership, Peter H. Kliegman, CDC Products Corp. and Aceto Corporation (incorporated by reference to Exhibit 10(vii) to the Company's Annual Report on Form 10-K for the year ended June 30, 1999). 10.10 Asset Purchase Agreement among Magnum Research Corporation, CDC Products Corp., Roy Gross and Aceto Corporation (incorporated by reference to Exhibit 10 (viii) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.11 Asset Purchase Agreement between Schweizerhall, Inc. and Aceto Corporation (incorporated by reference to Exhibit 10(ix) to the Company's Annual Report on Form 10-K for the year ended June 30, 2000). 10.12 Purchase and Sale Agreement among Schweizerhall Holding AG, Chemische Fabrik Schweizerhall, Schweizerhall, Inc., Aceto Corporation and Aceto Holding B.V., I.O. (incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K dated April 4, 2001). 10.13 Loan Guarantee between Aceto Corporation and subsidiaries and Deutsche Bank AG dated March 22, 2001 (incorporated by reference to Exhibit 10.13 to the Company's report on Form 10-K for the year ended June 30, 2001). 10.14 Credit Agreement between Aceto Corporation and Subsidiaries and JPMorgan Chase Bank dated May 10, 2002 (incorporated by reference to Exhibit 10.14 to the Company's report on Form 10-K for the year ended June 30, 2002). 21* Subsidiaries of the Company. 23* Consent of KPMG LLP. 31.1** Certification by CEO Leonard S. Schwartz pursuant to U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002. 31.2** Certification by CFO Douglas Roth pursuant to U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32.1** Certification by CEO Leonard S. Schwartz pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. 55 32.2** Certification by CFO Douglas Roth pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * Incorporated by reference to the Company's Form 10-K filed on September 26, 2003. ** Filed herewith 56 SIGNATURES Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. ACETO CORPORATION By /s/ Leonard S. Schwartz ----- Leonard S. Schwartz Chairman, President and Chief Executive Officer Date: October 21, 2003

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated. Signatures Title Date
----- /s/ Leonard S. Schwartz Chairman, President and 10-21-03 ----- Chief Executive
Officer Leonard S. Schwartz (Principal Executive Officer) /s/ Douglas Roth Secretary/Treasurer and 10-21-03
----- Chief Financial Officer Douglas Roth (Principal Financial and Accounting Officer) /s/ Stanley
Fischer Director 10-21-03 ----- Stanley Fischer /s/ Samuel I. Hendler Director 10-21-03
----- Samuel I. Hendler /s/ Robert Wiesen Director 10-21-03 ----- Robert Wiesen /s/ Ira
S. Kallem Director 10-21-03 ----- Ira S. Kallem /s/ Albert L. Eilender Director 10-21-03
----- Albert L. Eilender /s/ Hans C. Noetzli Director 10-21-03 ----- Hans C. Noetzli 57