

ACETO CORP

FORM 10-K (Annual Report)

Filed 9/29/1997 For Period Ending 6/30/1997

Address	ONE HOLLOW LANE LAKE SUCCESS, New York 11042
Telephone	516-627-6000
CIK	0000002034
Industry	Chemical Manufacturing
Sector	Basic Materials
Fiscal Year	02/05

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549 **FORM 10-K**

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

For the fiscal year ended June 30, 1997
Commission file number 0-4217

ACETO CORPORATION

(Exact name of the company as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	11-1720520 (I.R.S. Employer identification No.)
One Hollow Lane, Suite 201 Lake Success, New York (Address of principal executive offices)	11042 (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
None	

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

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

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

Yes No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.
4,654,491

The aggregate market value of the voting stock of the company held by non-affiliates of the company as of September 2, 1997 was \$74,853,082.

Documents incorporated by reference: The Company's Proxy Statement for the annual meeting of the Company's shareholders to be held on December 4, 1997. (See Part III herein).

PART I

Item 1. Business

The Company, which was incorporated in 1947, is primarily engaged in the marketing of fine and industrial chemicals used principally in the

agricultural, color producing, pharmaceutical and surface coating industries. The Company sells over 600 chemicals used in these and other fields.

Most of the chemicals distributed by the Company are purchased abroad mainly for sale throughout the United States; to a minor extent, some chemicals are sold abroad.

During the fiscal year ended June 30, 1997 approximately 50% of the Company's purchases of chemicals came from Europe and approximately 35% from Asia.

There were no significant changes in the kinds of products sold by the Company or in the markets served or methods of distribution used by it.

The chemical industry is highly competitive. Most of the chemicals that the Company sells are in competition with the products of chemical manufacturers, including the largest chemical companies, who have substantially greater resources than the Company. However, in the Company's opinion, based on reports from its customers and suppliers, its competitive position is enhanced by the following: the chemical products that it offers are prime quality products, many produced by major chemical companies, some of whom are the largest chemical companies in Europe and Asia, which products are offered by the Company at attractive and competitive prices. For the most part the Company warehouses the inventories of the chemicals which it sells at public warehouses strategically located throughout the United States, and can therefore fill orders rapidly from inventory. The Company has developed ready access to key purchasing, research and technical executives of both its customers and suppliers, and therefore one of its salient competitive strengths is its ability to obtain quick decisions, when necessary, because of such access. The technical support and services that the Company provides to its customers is also a strength. The Company does not consider itself to be a significant factor in the chemical industry taken as a whole.

During fiscal years ended June 30, 1997 and 1996, no single chemical product accounted for as much as 10% of the Company's consolidated revenues; and no sales to any one customer accounted for as much as 10% of the Company's sales. During the fiscal year ended June 30, 1995, one bulk pharmaceutical chemical product accounted for 10% of the Company's consolidated revenues and sales of said product to Baker Norton Pharmaceuticals, Inc. accounted for 10% of the Company's sales.

During fiscal years ended June 30, 1997, 1996 and 1995, one of the Company's suppliers accounted for 22%, 25% and 20% of total purchases, respectively.

Certain of the chemicals purchased by the Company are supplied to it on an exclusive basis, including the aforementioned bulk pharmaceutical product. Based on its relationships with its vendors, the Company believes its vendors will continue to supply such chemicals on an exclusive basis.

The Company holds no patents, trademarks, licenses, franchises or concessions which it considers to be material to its operations.

Sales of certain of the Company's chemicals are higher in the last six months of the fiscal year. For the most part, the Company warehouses the products that it sells and fills orders from inventory. It, therefore, does not consider information concerning backlogs to be applicable.

A subsidiary of the Company markets certain agricultural chemicals and contracts for the manufacture of other 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. The Company estimates the cost of test data at the time it is first required, which estimates are amortized over a period of up to five years, updated annually; and are included in cost of sales.

Liability under FIFRA would arise if the Company failed to compensate the initial registrant for the cost of producing the necessary test data. Since the Company markets no pesticide products which are not registered, and compensates initial registrants for the cost of producing test data, it believes it does not subject itself to contingent liabilities in such regard.

Compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment will have no material effect on the capital expenditures and competitive position of the Company. 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 was established in fiscal 1993 for \$1.5 million. During fiscal 1997, after additional testing was completed, the company received a revised estimate from the consultant. As a result, the company recorded an additional liability of \$800,000 in the quarter ended September 30, 1996. At June 30, 1997 the remaining liability was \$1.4 million. The company believes it is possible that such amount may not be sufficient to cover future environmental remediation but does not believe there will be a material adverse effect on the financial position or liquidity of the company. However, depending on the amount and timing of any required remediation over and above the liability established, it is possible that the company's future results could be materially affected in a particular reporting period. Other than the aforementioned remediation, the company is not aware of any material environmental liabilities.

At June 30, 1997, the Company employed approximately 75 persons, none of whom were covered by a collective bargaining agreement.

Item 2. Properties

The Company's general headquarters and main sales office occupy approximately 20,000 square feet of leased space in a modern office building in Lake Success, New York. The present lease expires in April 2001.

The Company's former manufacturing facility is located on an 11-acre parcel in Carlstadt, New Jersey, owned by the Company. This parcel contains one building with approximately 5,000 square feet of office space. The property is held for sale.

The Company owns two parcels in Long Island City, New York totaling 10,000 square feet. Both parcels are held for sale.

In January, 1997 the Company sold a parcel it owned in Long Island City, New York. This parcel was comprised of a 5,000 square foot building.

Item 3. Legal Proceedings.

(None)

Item 4. Submission of Matters to a Vote of Security Holders.

(None)

PART II

Item 5. Market for the Company's Common Equity and Related

Stockholder Matters.

The Company's common stock is traded in the National Market System of NASDAQ (Symbol: ACET) and was quoted at prices* ranging as follows:

FISCAL 1997	HIGH	LOW
First Quarter	15 3/4	12 1/4
Second Quarter	14 1/2	12 3/4
Third Quarter	14 1/2	12 1/2
Fourth Quarter	15	12 3/4

FISCAL 1996	HIGH	LOW
First Quarter	14 3/8	13
Second Quarter	16 3/8	14 1/4
Third Quarter	17 1/2	15 1/4
Fourth Quarter	17 1/2	15

*The above prices represent high and low prices for actual transactions.

A 10% stock dividend was paid in January 1996. The above prices have been adjusted for this dividend, as appropriate.

Cash dividends of \$0.18 per common share were paid in January and June of both the fiscal years ended June 30, 1997 and 1996.

As of September 1, 1997, there were approximately 800 holders of record of the Company's Common Stock.

Item 6. Selected Financial Data

(In thousands, except per share amounts)

Years Ended June 30	1997	1996	1995	1994	1993
Net sales	\$169,387	\$183,163	\$164,783	\$149,847	\$155,267
Net income	6,228(1)(2)	7,154	7,756	6,994	1,899 (3)
Net income per common and common equivalent share (4)	1.24(1)(2)	1.34	1.38	1.23	0.33 (3)

Total assets	86,145	87,302	86,116	81,798	76,352
Working capital	48,927	50,907	48,289	43,606	41,998
Long-term debt	500	1,000	1,500	2,000	2,500
Redeemable preferred stock	750	750	821	821	821
Shareholders' equity	60,434	63,161	60,143	56,846	51,901
Number of common shares outstanding at year end (4)	4,654	5,188	5,324	5,506	5,526
Book value per common share (4)	\$ 12.98	\$ 12.17	\$ 11.30	\$ 10.32	\$ 9.39
Cash dividends declared per common share	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.32	\$ 0.28

(1) Includes an after-tax charge of \$187 (\$.04/share) in final settlement of a complaint by the U.S. Department of Justice sent to the Company on February 10, 1995. The complaint alleged violation of the Resource Conservation and Recovery Act (RCRA) by a then wholly owned subsidiary in Waterbury, CT. This subsidiary was sold on June 19, 1996.

(2) Includes an after-tax charge of \$480 (\$.09/share) to cover a revised estimate for remediation of the Company's former manufacturing site in Carlstadt, NJ.

(3) Includes an after-tax charge of \$4.8 million (\$.85/share) to cover plant shut-down costs.

(4) Adjusted for stock dividends, as appropriate.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES.

The Company's primary source of liquidity is cash provided from operating activities; \$5.6 million in fiscal 1997 and \$12.4 million in fiscal 1996. Cash and short-term investments totaled \$14.2 and \$16.0 million and working capital was \$48.9 and \$50.9 million at June 30, 1997 and 1996, respectively. In addition, the Company's long-term investments totaled \$11.2 and \$12.7 million for the same periods. These investments are highly liquid and can be used for working capital if needed. The Company has sufficient lines of credit available with banks, should any additional funds be required.

The Company's stock buyback program resulted in the repurchase of 552,000 shares for \$7.4 million during fiscal 1997 and 171,000 shares for \$2.6 million during fiscal 1996.

In June 1996 the Company discontinued operations and sold certain assets of its subsidiary, Pfaltz & Bauer, Inc. This closure, along with the prior closings of the Company's two manufacturing facilities, has reduced the need for capital expenditures.

The former site of Arsynco, Inc., one of the closed manufacturing facilities, will require environmental remediation. In October 1996 the Company's environmental consultant completed its investigation of the property and estimated a cost of \$1.5 million to complete the remediation. In the quarter ended September 30, 1996 the Company increased the current environmental remediation liability by \$800,000 thereby adjusting the liability to the revised estimate. In 1993 the Company initially recorded an environmental liability of \$1.5 million and through September 30, 1996 had expended \$800,000 for testing, evaluation and remediation of the property.

Any funds required for additional stock buybacks, capital expenditures or environmental remediation will be funded by the aforementioned sources of liquidity.

RESULTS OF OPERATIONS.

In fiscal 1997, net sales decreased by 8%, to \$169.4 million. Lower sales of agricultural chemicals and bulk pharmaceuticals to the generic drug industry, partially offset by increased sales of intermediates used in the manufacture of dyes, pigments and pharmaceuticals accounted for the decrease. The volume of products sold decreased by 6%, slightly less than the corresponding sales decrease. While selling prices in general remained stable, the decrease in sales of bulk pharmaceuticals, which tend to be higher priced, accounted for this disparity. The increase in net sales of 11%, to \$183.2 million, in fiscal 1996 compared to 1995 was due to higher sales of specialty chemical intermediates used in the manufacture of pharmaceuticals, dietary supplements and industrial chemicals. In fiscal 1996, selling prices were relatively stable and volumes were only marginally higher than the previous year.

Gross profit margins decreased to 12.6% in fiscal 1997 down from 13.0% in fiscal 1996 and 15.1% in fiscal 1995. Increased competition in the

dye and pigment intermediates business was responsible for the decrease in 1997 from 1996. The decrease in 1996 from 1995 was caused by increased competition in many areas of business, as well as higher sales of a marginally profitable herbicide in 1996.

Selling, general and administrative expenses were down 5% in fiscal 1997 compared to 1996. Several components increased, including the cost of medical insurance, selling expenses, legal expense and consulting fees. These increases were more than offset by the elimination of selling, general and administrative expenses of \$1.3 million from the Company's former Pfaltz & Bauer, Inc. subsidiary. The decrease of 3% in fiscal 1996 compared to fiscal 1995 was due to decreases in insurance and telecommunications costs, along with a non-recurring expense of \$400,000 in 1995 relating to the preparation for sale of Pfaltz & Bauer, Inc. These decreases were partially offset by increases in compensation and selling expenses.

Interest expense, which primarily relates to long-term debt, was \$110,000, \$157,000 and \$196,000 in fiscal 1997, 1996 and 1995, respectively. The interest on long-term debt continues to decline as scheduled payments reduce the principal balance.

Other income increased to \$2.5 million in fiscal 1997 compared to \$1.5 million in fiscal 1996. There were many factors that accounted for this \$1.0 million increase. The sale of property held by a subsidiary resulted in a \$200,000 gain. In conjunction with the aforementioned sale of a subsidiary in June of 1996, inventory was transferred to the new ownership and the Company has received and will continue to be entitled to a portion of the proceeds from the sale of this inventory for a period of up to three years from the date of transfer. This totaled \$170,000 for the fiscal year ended June 30, 1997. Also, relating to this transaction, the Company earned approximately \$70,000 in interest on two notes. Royalty income increased by \$100,000 and higher average cash balances available for investment resulted in an increase of \$130,000 in interest income. During fiscal 1996 a loss of \$250,000 was realized on the sale of certain assets of Pfaltz & Bauer, Inc. The decrease in fiscal 1996 to \$1.5 million from \$1.8 million in fiscal 1995 was due to the aforementioned loss of \$250,000 in fiscal 1996, along with slightly lower investment rates.

The effective tax rates were 38.9%, 39.4% and 38.5% in fiscal 1997, 1996 and 1995, respectively. All three years were not affected by any unusual tax circumstances and approximated the Company's traditional effective tax rate.

IMPACT OF NEW ACCOUNTING STANDARDS.

The Financial Accounting Standards Board has issued Statement 128, "Earnings per Share" ("Statement 128"). Statement 128 establishes standards for computing and presenting earnings per share ("EPS"). The statement simplifies the standards for computing EPS and makes them comparable to international EPS standards. The provisions of Statement 128 are effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The statement does not permit early application and requires restatement of all prior period EPS data presented. Adoption of Statement 128 will not materially affect the Company's consolidated financial position, results of operations, or previously reported EPS data.

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, 1997 and 1996.

QUARTERLY FINANCIAL DATA (Unaudited) (In thousands except per share amounts)

	Year ended June 30, 1997			
	Quarter Ended			
	Sept. 30, 1996	Dec. 31, 1996	Mar. 31, 1997	June 30, 1997
Net sales	\$39,184	\$35,850	\$47,361	\$46,992
Gross profit	4,379	4,931	5,812	6,211
Net income	511(1)(2)	1,662	2,075	1,981
Net income per common and common equivalent share	0.10(1)(2)	0.33	0.42	0.41
	Year ended June 30, 1996			
	Quarter Ended			
	Sept. 30, 1995	Dec. 31, 1995	Mar. 31, 1996	June 30, 1996
Net sales	\$40,389	\$47,29	\$52,218	\$43,261
Gross profit	4,760	6,595	6,853	5,666
Net income	1,162	2,165	2,293	1,535

Net income per common and
common equivalent share* 0.22 0.40 0.43 0.28

(1) Includes an after-tax charge of \$187 (\$.04/share) in final settlement of a complaint by the U.S. Department of Justice sent to the Company on February 10, 1995. The complaint alleged violation of the Resource Conservation and Recovery Act (RCRA) by a then wholly owned subsidiary in Waterbury, CT. This subsidiary was sold on June 19, 1996.

(2) Includes an after-tax charge of \$480 (\$.09/share) to cover a revised estimate for remediation of the Company's former manufacturing site in Carlstadt, New Jersey.

* Adjusted for stock dividends, as appropriate.

Cost of sales during interim periods is determined by gross profit rates based upon the mix of products sold during each quarter.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Company

Company's proxy statement relating to the annual meeting of the Company's shareholders to be held on December 4, 1997, which will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K (the "Proxy Statement"), is hereby incorporated by reference.

Based solely on its review of the copies of such forms received by it, the Company believes that during the fiscal year covered by this Form 10-K all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with.

Item 11. Executive Compensation.

The Company's Proxy Statement is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The Company's Proxy Statement is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions.

The Company's Proxy Statement is hereby incorporated by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) See Index to Consolidated Financial Statements and Schedules included elsewhere herein.

(b) No reports on Form 8-K were filed during the three months ended June 30, 1997.

(c) Exhibits

- 3(i) 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(ii) 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 ("1986 10-K")).
- 3(iii) By-laws (incorporated by reference to Exhibit 3(iii) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1981).

3(iii)(a) By-laws (incorporated by reference to Exhibit 1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1991).

3(iii)(b) By-laws (incorporated by reference to Exhibit

3(iii)b to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996 ("1996 10-K")).

- 10(i) Note Agreement dated December 10, 1987 with the Prudential Insurance Company of America (incorporated by reference to Exhibit 10(i) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1987).
- 10(ii) Profit Sharing Plan, as amended and restated effective July 1, 1984 (incorporated by reference to Exhibit 10(ii) to 1986 10-K).
- 10(ii)(a) 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(iv) Excess Benefit Plan, effective June 30, 1985 (incorporated by reference to Exhibit 10(iv) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1985).
- 10(iv)(a) 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 ("1993 10-K")).
- 10(v) 1980 Stock Option Plan (incorporated by reference to Item 4(a)(ii) of S-8 2-70623).
- 10(v)(a) 1980 Stock Option Plan (as amended and restated effective as of September 19, 1990) (incorporated by reference to exhibit 4(c) to Registration Statement No. 33-38679 on Form S-8).
- 10(v)(b) 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(vi) Lease between Aceto Corporation and M. Parisi & Son Construction Co., Inc. for office space at One Hollow Lane, Lake Success, New York dated May 24, 1990 (incorporated by reference to Exhibit 10(vi) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1990).
- 10(vii) Arsynco, Inc. Severance Plan for employees not covered by the Collective Bargaining Agreement dated January 1993 (incorporated by reference to Exhibit 10(vii) to 1993 10-K).
- 10(viii) Consulting agreement dated July 1, 1996 between the Company and Robert E. Parsont (incorporated by reference to Exhibit 10(viii) to 1996 10-K).
- 10(ix) Consulting agreement dated July 1, 1997 between the Company and Arnold J. Frankel.
- 21 Subsidiaries of the Company (incorporated by reference to Exhibit 21 to 1993 10-K).
- 24 Consent of KPMG Peat Marwick LLP.

Exhibit 10(ix)

CONSULTING AGREEMENT

**AGREEMENT DATED AS OF 7/1/97
BETWEEN ACETO CORP., A NEW YORK CORPORATION
(THE "COMPANY") AND ARNOLD J. FRANKEL (THE "CONSULTANT")**

WHEREAS, Mr. Frankel retired from his position as Chairman and C.E.O. of the Company on June 30, 1997; and

WHEREAS, the Company desires to retain his services as Consultant, as an independent contractor and adviser to the Company, and Consultant is willing to act in such capacity, on the terms and conditions set forth herein:

NOW THEREFORE, in consideration of the promises and of the mutual agreements set forth herein, the parties hereto agree as follows:

1. Retention of Consultant. The Company hereby engages Consultant, and Consultant hereby accepts such engagement for a period of eighteen (18) months commencing on the date hereof (the "Consulting Term"), subject to extension by the written agreement of the parties and termination as set forth in Section 8 below.

2. Services. (a) During the Consulting Term Consultant shall render consulting and advisory services to the senior executives of the Company.

(i) Consultant shall make himself available to the Company for his services for up to 60 business days (as hereinafter defined) during the Consulting Term at the facilities of Aceto located at the principal offices of the Company in Lake Success, NY or at such other locations as the Company and Consultant may so agree.

For the purpose hereof the term business day shall mean a weekday during the business hours of 9 a.m. to 5 p.m. or any part thereof.

(ii) The Company may also utilize Consultant's services by telephone and/or fax. Such time expended by Consultant shall be recorded in a log and submitted to the Company within 5 days after the end of each month, or as soon thereafter as Consultant's personal travel schedule permits. Such time, will be credited to Consultant's service obligation to Company, using a formula where 8 such hours shall be the equivalent of one business day.

(iii) Consultant agrees to remain on the Aceto Board of Directors, if elected, for the entire Consulting Term. Consultant fully intends to attend all Board meetings during the Consulting Term, subject only to the provisions of (b) below.

(b) The Company will give due consideration to the convenience of Consultant in respect of the times and places at which the Company shall request the performance of Consultant's services hereunder. The failure or inability of Consultant, by reason of temporary illness, reasonable vacation time or other cause beyond his control, to respond to any request made by the Company for his consulting services hereunder shall not be deemed to constitute a default on his part in the performance of his obligation to render such services.

(c) Consultant shall perform advisory and consulting services hereunder as an independent contractor, and not as an employee, of the Company.

3. Consultant Fee. (a) As compensation for Consultant's services specified above, the Company shall pay to consultant a fee of \$192,600, in installments of \$10,700 for each month for 18 months during the term of this Agreement. The fee payable hereunder shall be paid on the 15th of each month, whether or not the services of Consultant shall have been rendered during that month. So long as Consultant shall be willing and able to render his services for the Consulting Term in accordance with the provisions of this Agreement, the Company shall be required to pay Consultant.

(b) In the event that Consultant renders service for more than 60 business days, as defined in sections 2(a)(i) and 2(a)(ii) above, Company shall pay Consultant an additional fee at the rate of \$3,000 per day. Such fees shall be paid within 5 business days following the end of the month in which Consultant shall have rendered such additional services.

(c) As a member of the Board of Directors who is not an employee of the Company, the Company will pay Consultant the fee it deems appropriate for service on the Board by an outside Director. As of this date, such fee is \$7,500.

4. Expense Reimbursement. The Company will promptly reimburse Consultant for all his travel expenses incurred in connection with his services rendered pursuant to Sections 2(a)(i), 2(a)(ii) and 2(a)(iii) hereof and shall reimburse Consultant for all other travel and other reasonable expenses or disbursements incurred in rendering his consulting services hereunder. For such purposes, Consultant shall submit to the Company reports of such expenses or disbursements. However, no reimbursement will be paid for travel to the Company's offices, or facilities in the Metropolitan NY-NJ area, if the Consultant resides within 50 miles of the Company's office.

5. Confidentiality. The Consultant covenants and agrees with the Company that he will not at any time, except in the performance of his obligations to the Company hereunder or with the prior written consent of the Company, directly or indirectly, disclose any Confidential Information that he has obtained or may obtain by reason of his past or present association with the company or any of its subsidiaries and affiliates. The term "Confidential Information" means any information concerning or referring in any way to the business of the Company disclosed to or acquired by the Consultant through or as a consequence of the Consultant's past or present association with the Company. For purposes of this Agreement, Confidential Information consists of information proprietary to the Company which is not generally known to the public and which in the ordinary course of business is maintained by the Company as confidential. By way of example and without limitation, Confidential Information consists of trade secrets, patents, inventions, copyrights, techniques, designs, and other technical information in any way concerning or referring to scientific, technical or mechanical aspects of the Company's products, concepts, processes, machines, engineering, research and development. Confidential Information also includes, without limitation, information in any way concerning or referring to the Company's business methods, business plans, forecasts and projections, operations, organizational structure, finances, customers, pricing, costing, marketing, purchasing, merchandising, employees or their compensation, data processing, and all other information designated by the Company as "confidential".

6. Non-Competition. The Consultant agrees that during the term of this Agreement and for a period of two years thereafter, the Consultant shall not: (i) conspire, plan or otherwise agree to organize or develop any business or entity that directly or indirectly competes with the Company; (ii) directly or indirectly organize, own, manage, operate or control any entity in direct or indirect competition with the Company, provided, however, that ownership by the Consultant of not more than 2% of the outstanding stock of an entity in direct or indirect competition with the Company shall not violate this clause; (iii) divert or attempt to divert any business enjoyed or solicited by the Company during the term of this Agreement; (iv) solicit or attempt to solicit, directly or indirectly, any of the Company's employees for any competitive service or business; (v) seek or accept any employment or other work with any company or other entity which competes with the Company.

7. Notices. Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally or sent by registered mail, postage prepaid, if to the Company to Aceto Corporation, One Hollow Lane, Suite 201, Lake Success, New York 10042, Attention:

Leonard S. Schwartz, Chairman and if to Consultant, Arnold J. Frankel, 535 East 86th Street, New York, NY 10028, or to such other address as any party shall specify to the other party in writing.

8. Termination.

(a) Death. In the event of the death of Consultant during the Consulting Term, this Agreement shall terminate as of the date of his death, without further liability of any party, except in respect of liabilities incurred or accrued up to and including the date of such termination.

(b) Permanent Disability. In the event the consultant becomes physically or mentally disabled so that he is unable to render the services required by this Agreement for a period of six consecutive months, or for shorter periods aggregating six months during any twelve month period, the Company may at any time after the last day of the six consecutive months of disability, or the day on which shorter periods of disability equal an aggregate of six months, terminate this Agreement by written notice to the Consultant. Thereafter, there shall be no further liability of any party, except in respect of liabilities incurred or accrued up to and including the date of termination. The Consultant will use his best efforts to cooperate with any physician engaged by the Company to determine whether or not a Permanent Disability exists.

(c) Cause. The Company may terminate this Agreement for "cause" by written notice to the Consultant. Thereafter, there shall be no further liability of any party, except in respect of liabilities incurred or accrued up to and including the date of termination. Cause shall include, without limitation, intentional misconduct, dishonesty and commission of a crime involving moral turpitude.

9. Arbitration. Any dispute over the interpretation, application or claimed violation of any term or provision of this agreement may be submitted to arbitration upon the written request of either party delivered to the other party within ten (10) days of the date that the party seeking arbitration knew or reasonably should have known of the existence of the dispute. The arbitrator shall be selected and the hearing shall be conducted under the auspices of and pursuant to the rules of the American Arbitration Association.

10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

11. Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their personal representatives, successors and assigns; provided, however, that this Agreement shall not be assignable by either party without the prior written consent of the other party.

12. Severability. If a court of competent jurisdiction determines that any term or provision hereof is invalid or unenforceable: (i) the remaining terms and provisions hereof shall be unimpaired; and (ii) such court shall have the authority to replace such invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

13. Entire Agreement. This Agreement, contains the entire agreement among the parties hereto with respect to the matters set forth herein and therein, and supersedes and revokes all prior oral or written agreements and understandings with respect thereto. This Agreement may be amended or terminated, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties hereto.

ACETO CORPORATION

*BY: /s/Leonard S. Schwartz
Leonard S. Schwartz
Chairman, Board of Directors*

CONSULTANT

*/s/Arnold J. Frankel
Arnold J. Frankel*

Exhibit 24

Independent Auditors' Consent

The Board of Directors
Aceto Corporation:

We consent to incorporation by reference in the registration statement (No. 33-38679) on Form S-8 of Aceto Corporation of our report dated August 15, 1997, relating to the consolidated balance sheets of Aceto Corporation and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 1997, and all related schedules, which report appears in the June 30, 1997 annual report on Form 10-K of Aceto Corporation.

KPMG PEAT MARWICK LLP

Jericho, New York
September 24, 1997

Pursuant to the requirements of Section 13 or 5 (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
(Company)

By	<i>/s/Leonard S. Schwartz</i> <i>Leonard S. Schwartz</i> <i>Chairman, President</i> <i>and Chief Executive Officer</i>	<i>/s/Donald Horowitz</i> <i>Donald Horowitz</i> <i>Secretary/Treasurer and</i> <i>Chief Financial Officer</i>
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Date: *September 24, 1997*

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.

<i>Signatures</i>	<i>Title</i>	<i>Date</i>
<i>/s/Leonard S. Schwartz</i> <i>Leonard S. Schwartz</i>	<i>Chairman, President and</i> <i>Chief Executive Officer</i>	<i>9-24-97</i>
<i>/s/Donald Horowitz</i> <i>Donald Horowitz</i>	<i>Secretary/Treasurer,</i> <i>Chief Financial Officer</i> <i>and Director</i>	<i>9-24-97</i>
<i>/s/Anthony Baldi</i> <i>Anthony Baldi</i>	<i>Director</i>	<i>9-24-97</i>
<i>/s/Thomas Brunner</i> <i>Thomas Brunner</i>	<i>Director</i>	<i>9-24-97</i>
<i>/s/Samuel I. Hendler</i> <i>Samuel I. Hendler</i>	<i>Director</i>	<i>9-24-97</i>

ACETO CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Independent Auditors' Report

Consolidated financial statements:

Consolidated balance sheets as of June 30, 1997 and 1996 Consolidated statements of income for the years ended June 30, 1997, 1996 and 1995

Consolidated statements of cash flows for the years ended June 30, 1997, 1996 and 1995 Consolidated statements of shareholders' equity for the years ended June 30, 1997, 1996 and 1995 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.

Independent Auditors' Report

The Board of Directors
Aceto Corporation:

We have audited the accompanying consolidated balance sheets of Aceto Corporation and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 1997. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule II 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 and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1997 and 1996 and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1997, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule II, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Jericho, New York
August 15, 1997

Aceto Corporation and Subsidiaries
Consolidated Balance Sheets
Years ended June 30, 1997 and 1996

Assets	1997	1996
	(In thousands)	
Current assets:		
Cash and cash equivalents	\$ 4,142	\$ 5,380
Short-term investments	10,013	10,595
Receivables:		
Trade, less allowance for doubtful accounts 1997,\$219; 1996,\$207	24,627	24,739
Other	1,363	590
	25,990	25,329
Inventory	31,210	30,156
Prepaid expenses	240	104
Deferred income tax benefit	1,267	1,125
Property held for sale	512	595
Total current assets	73,374	73,284
Long-term investments	11,212	12,737
Long-term notes receivable	948	790
Property and equipment:		
Computers	674	616
Furniture and fixtures	573	500
Automobiles	178	230
	1,425	1,346
Less accumulated depreciation	1,125	1,046
	300	300
Other assets	311	191
Total Assets	\$86,145	\$87,302

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1997	1996
(In thousands except par value)		
Current liabilities:		
Drafts and acceptances payable	\$ 743	\$ 1,002
Current installments on long-term debt	250	250
Accounts payable	3,939	3,047
Accrued merchandise purchases	11,720	11,202
Accrued compensation	3,455	3,330
Accrued environmental remediation	1,387	790
Accrued income taxes	943	701
Other accrued expenses	2,010	2,055
Total current liabilities	24,447	22,377

Long-term debt, excluding current installments	500	1,000
Deferred income taxes	14	14
Redeemable preferred stock	750	750
Shareholders' equity:		
Common stock, \$.01 par value per share:		
Authorized 10,000 shares;		
issued: 1997,6,001; 1996,6,001	60	60
outstanding: 1997,4,654; 1996,5,188		
Capital in excess of par value	57,381	57,387
Retained earnings	21,079	16,646
	78,520	74,093
Less:		
Cost of common shares held in treasury;		
1997, 1,347 shares; 1996, 813 shares	18,086	10,932
Total shareholders' equity	60,434	63,161
Commitments and contingencies		
Total Liabilities and Shareholders' Equity	\$86,145	\$87,302

Aceto Corporation and Subsidiaries
Consolidated Statements Of Income
Years ended June 30, 1997, 1996 and 1995

	1997	1996	1995
	(In thousands except per share amounts)		
Net sales	\$169,387	\$183,163	\$164,783
Cost of sales	148,053	159,289	139,949
Gross profit	21,334	23,874	24,834
Selling, general and administrative expenses	12,719(1)	13,430	13,847
Provision for environmental remediation	800(2)	-	-
Operating profit	7,815	10,444	10,987
Other income (expense):			
Interest expense	(110)	(157)	(196)
Interest and other income	2,496	1,522	1,824
	2,386	1,365	1,628
Income before income taxes	10,201	11,809	12,615
Income taxes:			
Federal:			
Current	3,571	3,603	4,016
Deferred	(121)	346	89
State and local:			
Current	544	644	738
Deferred	(21)	62	16
	3,973	4,655	4,859
Net Income	\$ 6,228(1)(2)	\$ 7,154	\$ 7,756
Net income per common and common equivalent share:	\$ 1.24(1)(2)	\$ 1.34	\$ 1.38

See accompanying notes to consolidated financial statements.

(1) Includes an after-tax charge of \$187 (\$.04/share), \$225 pre-tax, in final settlement of a complaint by the U.S. Department of Justice sent to the Company on February 10, 1995. The complaint alleged violation of the Resource Conservation and Recovery Act (RCRA) by a then wholly owned subsidiary in Waterbury, CT. This subsidiary was sold on June 19, 1996.

(2) Includes an after-tax charge of \$480 (\$.09/share), \$800 pre-tax, to cover a revised estimate for remediation of the Company's former manufacturing site in Carlstadt, NJ.

Aceto Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years ended June 30, 1997, 1996 and 1995

1997 1996 1995

	(In thousands)		
Operating activities:			
Net income	\$6,228	\$7,154	\$7,756
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	179	265	299
Loss (gain) on sale of assets	(198)	257	--
Stock distribution to employees	--	3	1
Effect of market value over original option price for options exercised	59	144	272
Provision for doubtful accounts	12	3	28
Provision for (recovery of) deferred income taxes	(142)	407	104
Changes in operating assets and liabilities:			
Decrease (increase) in investments - trading securities	(437)	2,965	1,044
Decrease (increase) in trade accounts receivable	100	1,350	(2,540)
Decrease (increase) in other receivables	(773)	576	(406)
Decrease (increase) in inventory	(1,054)	367	(4,350)
Decrease (increase) in prepaid expenses	(136)	123	321
Decrease (increase) in long-term notes receivable	(158)	28	25
Increase in other assets	(120)	--	--
Increase (decrease) in drafts & acceptances payable	(259)	73	(421)
Increase (decrease) in accounts payable	892	467	(231)
Increase (decrease) in accrued merchandise purchases	518	(153)	2,510
Increase (decrease) in accrued compensation	125	(263)	270
Increase (decrease) in accrued environmental remediation	597	(195)	(685)
Increase (decrease) in accrued income taxes	242	(980)	(138)
Increase (decrease) in other accrued expenses	(45)	(200)	222
Net cash provided by operating activities	5,630	12,391	4,081
Investing activities:			
Purchases of investments-held-to-maturity	(6,186)	(7,653)	(7,083)
Proceeds from investments-held-to-maturity	8,728	3,838	4,968
Purchases of property and equipment	(155)	(77)	(212)
Proceeds from sale of property	259	92	--
Net cash provided by (used in) investing activities	2,646	(3,800)	(2,327)
Financing activities:			
Payments of long-term debt	(500)	(500)	(500)
Payments of cash dividends	(1,795)	(1,948)	(1,851)
Proceeds from exercise of stock options	138	223	258
Payments for purchases of treasury stock	(7,357)	(2,630)	(3,139)
Net cash used in financing activities	(9,514)	(4,855)	(5,232)
Net increase (decrease) in cash and cash equivalents	(1,238)	3,736	(3,478)
Cash and cash equivalents at beginning of year	5,380	1,644	5,122
Cash and cash equivalents at end of year	\$4,142	\$5,380	\$1,644

See accompanying notes to consolidated financial statements.

Aceto Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Dollars in thousands)

	Common Stock Issued	Capital in Excess of Par Value	Retained Earnings	Common Stock Held in Treasury	Total
Balance at June 30, 1994	\$55	\$50,168	\$12,842	\$(6,219)	\$56,846
Net income	-	-	7,756	-	7,756
Stock distribution to employees (100 shares)	-	-	-	1	1
Cash dividends:					
Common stock	-	-	(1,774)	-	(1,774)
Preferred stock	-	-	(77)	-	(77)

Exercise of stock options (45,000 shares)	-	(136)	-	530	394
Federal income tax benefit from 1980 stock option plan	-	136	-	-	136
Purchase of treasury stock (211,000 shares)	-	-	-	(3,139)	(3,139)
Balance at June 30, 1995	55	50,168	18,747	(8,827)	60,143
Net income	-	-	7,154	-	7,154
Stock distribution to employees (175 shares)	-	1	-	2	3
Stock dividend paid (471,000 shares)	5	7,303	(7,313)	-	(5)
Cash dividends:					
Common stock	-	-	(1,869)	-	(1,869)
Preferred stock	-	-	(73)	-	(73)
Exercise of stock options (36,000 shares)	-	(159)	-	400	241
Federal income tax benefit from 1980 stock option plan	-	126	-	-	126
Purchase of treasury stock (171,000 shares)	-	-	-	(2,630)	(2,630)
Conversion of redeemable preferred stock (11,000 shares)	-	(52)	-	123	71
Balance at June 30, 1996	60	57,387	16,646	(10,932)	63,161
Net income	-	-	6,228	-	6,228
Cash dividends:					
Common stock	-	-	(1,725)	-	(1,725)
Preferred stock	-	-	(70)	-	(70)
Exercise of stock options (19,000 shares)	-	(46)	-	203	157
Federal income tax benefit from 1980 stock option plan	-	40	-	-	40
Purchase of treasury stock (552,000 shares)	-	-	-	(7,357)	(7,357)
Balance at June 30, 1997	\$60	\$57,381	\$21,079	\$(18,086)	\$60,434

See accompanying notes to consolidated financial statements.

Aceto Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended June 30, 1997, 1996 and 1995

(Dollars in thousands except amounts and par value per share)

(1) Description of Business The Company is primarily engaged in the marketing of fine and industrial chemicals used principally in the agricultural, color producing, pharmaceutical and surface coating industries. Most of the chemicals distributed by the Company are purchased abroad mainly for sale throughout the United States; to a minor extent, some chemicals are sold abroad.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Aceto Corporation and all subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

Revenue is recognized at the time goods are sold and shipped.

Inventory

Inventory consists of finished goods and is stated at the lower of cost (principally on a specific identification basis) or market (net realizable value).

Property and Equipment

Property and equipment are stated at cost. The Company depreciates property and equipment using sum-of-the-years and declining balance methods. The range of estimated useful lives are as follows:

Computers	5 years
Furniture and fixtures	10 years
Automobiles	3 years

Property Held for Sale

Property held for sale is stated at cost. Buildings included in the property held for sale are depreciated using the straight-line method over twenty years. Impairment, if any, is recognized if the estimated fair value less costs to sell is lower than the carrying value.

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.

Income Per Common and Common Equivalent Share Income per common and common equivalent share is determined based on the weighted average number of common and common equivalent shares outstanding for the period. Weighted average common shares outstanding for fiscal years ended June 30, 1997, 1996 and 1995 were 4,972,000, 5,299,000 and 5,545,000, respectively, after giving retroactive effect to the 10% stock dividend paid in January 1996 and included common stock equivalents of 46,000, 62,000 and 63,000, respectively. Shares issuable upon the assumed conversion of preferred stock were excluded from the computation since they were not materially dilutive during the three year period.

Cash and Cash Equivalents

There were no cash equivalents at June 30, 1997 and 1996. The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Marketable Investment Securities

Investments at June 30, 1997 and 1996 consisted of U.S. Treasury, corporate debt and equity securities, and municipal obligations. The Company classifies its debt and equity securities as either trading or held-to-maturity securities. Trading securities are bought and held principally for the purpose of selling them in the short term. Held-to-maturity are those securities in which the Company has the ability and intent to hold until maturity. In determining realized gains and losses, the cost of securities sold is based on the specific identification method.

Trading securities were recorded at their fair market value of \$3,301 and \$2,866 at June 30, 1997 and 1996, respectively, and were classified as short-term investments. Unrealized gains and losses on trading securities are included in earnings. Dividend and interest income are recognized when earned. 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. The cost of held-to-maturity securities approximated their fair market value.

Held-to-maturity securities at June 30, 1997 and 1996 consisted of:

	Due in less than one year		Due after one year through three years	
	1997	1996	1997	1996
U.S. Treasury securities	\$1,989	\$1,994	\$ 999	\$ 1,967
Corporate debt securities	3,548	4,763	10,213	10,770
Municipal obligations	1,175	972	---	---
	\$6,712	\$7,729	\$11,212	\$12,737

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 immaterial (See note 11c).

The difference between the fair value of long-term financial instruments and their carrying value at June 30, 1997 and 1996 was not material. The fair value of the Company's long-term debt and notes receivable were based upon current rates for similar financial instruments offered to the Company.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

The Company adopted the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", on July 1, 1996. This statement requires that long-lived assets and certain identifiable intangibles be 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 net cash flows expected to be generated by the asset. 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. Adoption of this statement did not have a material impact on the Company's financial position, results of operations or liquidity.

Stock Options

Prior to July 1, 1996 the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense would be recorded on the date of grant only if and to the extent that the current market price of the underlying stock exceeded the exercise price. On July 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"), which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, Statement 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in the prior year and future years as if the fair-value-based method defined in Statement 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of Statement 123.

(3) Debt and Financing Arrangements

(a) Long-term debt outstanding at June 30, 1997 and 1996 was as follows:

1997 1996 Note payable to the Prudential
Insurance Company of America
in equal semi-annual installments

of \$250 maturing Jan. 1, 1999, plus interest at 9.10% payable quarterly.	\$ 750	\$1,250
Less current installments	250	250
	\$ 500	\$1,000

(b) The agreement underlying the long-term debt contains certain defined restrictive covenants, including limitations on corporate acquisitions and mergers and additional debt, minimum working capital and debt/equity ratios and the acquisition of the Company's stock.

(c) At June 30, 1997 and 1996 the Company had available two lines of credit with financial institutions totaling \$13,000. The credit arrangements do not: (i) restrict withdrawals of funds; (ii) have a formal requirement relating to compensating balances for either credit utilized or available; or (iii) provide for commitment fees. However, there are informal arrangements under which the Company maintains compensating balances. The compensating balance arrangements at June 30, 1997 and for the year then ended were satisfied by collected balances. There were no short-term loans outstanding under the lines of credit at any time during the three year period ended June 30, 1997. The lines of credit can be withdrawn by the financial institutions at any time.

(4) Income Taxes The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at June 30, 1997 and 1996 are presented below:

	1997	1996
Deferred tax assets:		
Accrued environmental remediation liabilities not currently deductible	\$ 555	\$ 316
Accrued compensation	468	450
Additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	156	234
Allowance for doubtful accounts receivable	88	83
Other	--	42
Net deferred tax asset	\$ 1,267	\$ 1,125
Deferred tax liabilities:		
Differences in depreciation of property and equipment	\$ (14)	\$ (14)

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 deferred tax asset, the Company will need to generate future taxable income of approximately \$3,300. Taxable income for the years ended June 30, 1997 and 1996 was approximately \$9,900 and \$12,800, 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.

Reconciliation of the statutory Federal income tax rate and the effective tax rate for the fiscal years ended June 30, 1997, 1996 and 1995 was as follows:

	1997	1996	1995
Federal statutory tax rate	34.0%	34.0%	34.0%
State and local taxes, net of Federal income tax benefit	3.4	3.9	3.9
Other	1.5	1.5	0.6
Effective tax rate	38.9%	39.4%	38.5%

(5) Redeemable Preferred Stock The Company has 2,000,000 authorized shares of redeemable preferred stock with a par value of \$2.50 per share. The stock is redeemable at the option of either the holder or issuer at par. All of the outstanding preferred stock is held by the Aceto Corporation Profit Sharing Plan. Redeemable preferred stock outstanding at both June 30, 1997 and 1996 consisted of the following:

	Shares	Par Value
Third series	100,000	\$250
Fourth series	40,000	100
Fifth series	40,000	100
Sixth series	40,000	100
Seventh series	40,000	100
Eighth series	40,000	100
		\$750

The third, fourth, fifth, sixth, seventh and eighth series of preferred stock are convertible beginning on the date of issue into the Company's common stock at ratios of 6.4, 6.4, 5.1, 6.0, 6.0 and 4.2 shares of preferred stock to 1 share of common stock, respectively, subject to antidilution provisions. The third and sixth series pay 10%, the fourth and fifth series pay 8%, the seventh series pays 9.5% and the eighth series pays 9% annual cumulative cash dividends on par value. All series have voting rights. In the event of liquidation of the Company, all series share ratably in the remaining proceeds.

On April 9, 1996 the Aceto Corporation Profit Sharing Plan converted 28,000 shares of second series preferred stock of Aceto Corporation into 11,000 shares of Aceto Corporation common stock.

(6) Supplemental Cash Flow Information Cash paid for interest and income taxes during the years ended June 30, 1997, 1996 and 1995 was as follows:

	1997	1996	1995
Interest	\$ 110	\$ 156	\$ 196
Income taxes	5,024	3,736	4,762

In June, 1997, the Company received a note in the amount of \$206 in connection with the sale of a building and land. In June 1996, the Company received notes aggregating \$635 in connection with the sale of certain assets and real property. (see note 10)

(7) Stock Option Plan

(a) Under the Company's 1980 stock option plan, the option prices are determined by the Board of Directors and can be greater or less than the market value of the stock on the date the options are granted. These options become exercisable in whole or in part, as determined by the Board of Directors, beginning on the date of grant, and must be exercised no later than five or ten years, depending on the terms at the date of grant, after the date they become exercisable.

Through June 30, 1997, options were granted to officers and key employees who own less than 10% of the Company's stock. At June 30, 1997, options to purchase 9,000 shares were available for grant.

(b) The following tabulations summarize the shares of common stock under option at June 30, 1997, 1996 and 1995 as adjusted only for stock dividends, if any, occurring in that year, and the activity with respect to options for the respective years then ended.

No. of	Weighted average exercise
--------	------------------------------

	shares	price per share
Shares under option and exercisable:		
June 30, 1997	152,000	\$10.86
June 30, 1996	122,000	9.70
June 30, 1995	110,000	8.41
Shares under option but not exercisable:		
June 30, 1997	200,000	\$12.77
June 30, 1996	106,000	11.67
June 30, 1995	--	--
Options granted during years ended:		
June 30, 1997	150,000	\$13.39
June 30, 1996	146,000	11.91
June 30, 1995	13,000	12.50
Options exercised during years ended:		
June 30, 1997	19,000	\$ 7.29
June 30, 1996	36,000	6.15
June 30, 1995	45,000	5.72

At June 30, 1997, the weighted average option price for the 352,000 option shares outstanding under the 1980 stock option plan was \$11.94 with expiration dates ranging from December 31, 1997 to December 31, 2013. Options cancelled during fiscal 1997 and 1996 were 8,000 and 1,000, respectively. No options were cancelled during fiscal 1995.

(c) Under the Company's 1980 stock option plan, upon exercise of options, the excess of the option price over the par value is credited to capital in excess of par value. When treasury stock is issued upon the exercise of options, the difference between the option price and the cost of treasury stock is recorded in capital in excess of par value. Under the 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 \$121, \$128 and \$86 in fiscal 1997, 1996 and 1995, respectively.

The per share weighted average fair value of stock options granted during 1997 and 1996 was \$4.34 and \$5.78, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Date of grant	Expected volatility(%)	Expected life(years)	Risk-free interest rate(%)	Dividend yield(%)
1997					
	1/24/97	20	5.0	6.19	2.62
	6/05/97	20	13.4	6.52	2.67
1996					
	1/29/96	20	5.0	5.18	2.25
	1/29/96	20	6.8	5.24	2.25
	3/20/96	20	6.8	5.93	2.34

The Company applies APB Opinion No. 25 in accounting for its stock option grants and, accordingly, no compensation cost has been recognized in the financial statements for its stock options which have an exercise price equal to or greater than the fair value of the stock on the date of the grant. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement No. 123, the Company's net income and income per share would have been reduced to the pro forma amounts indicated below:

	1997	1996
Net income:		
As reported	\$6,228	\$7,154
Pro forma	6,145	6,943
Income per share:		
As reported	\$ 1.24	\$ 1.34
Pro forma	1.22	1.30

Summarized information about stock options outstanding and exercisable at June 30, 1997 is as follows:

Exercise price	Outstanding			Exercisable	
	Number	Average	Average	Number	Average

range	of shares	life(1)	price(2)	of shares	price (2)
\$ 5-\$10	36,000	2.0	\$ 6.89	36,000	\$ 6.89
\$11-\$15	316,000	8.5	\$12.57	116,000	\$12.22

(1)Weighted average contractual life remaining, in years.

(2)Weighted average exercise price.

(8) Interest and Other Income Interest and other income earned during the fiscal years ended June 30, 1997, 1996 and 1995 were comprised of the following:

	1997	1996	1995
Dividends	\$ 19	\$ 14	\$ 20
Interest	1,595	1,469	1,547
Net gain (loss)on investments	105	44	(5)
Net gain (loss)on sale of assets	198	(243)	-
Royalty income	248	143	119
Misc. other income	331	95	143
	\$2,496	\$1,522	\$1,824

(9) Environmental Remediation It is the policy of the Company to accrue and charge against earnings environmental remediation costs at the time it is determined that a liability has been incurred and the amount of that liability can be reasonably estimated. 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 was established in fiscal 1993 for \$1,500. During fiscal 1997 after additional testing was completed, the Company received a revised estimate from the consultant. As a result, the Company recorded an additional liability of \$800 in the quarter ended September 30, 1996. At June 30, 1997 the remaining liability was \$1,400. The Company believes it is possible that such amount may not be sufficient to cover future environmental remediation but does not believe there will be a material adverse effect on the financial position or liquidity of the Company. However, depending on the amount and timing of any required remediation over and above the liability established, it is possible that the Company's future results could be materially affected in a particular reporting period. Other than the aforementioned remediation, the Company is not aware of any material environmental liabilities.

(10) Notes Receivable In June, 1997 a subsidiary of the Company sold real property and received a ten year note, payable monthly, in the amount of \$206, maturing in June 2007, bearing interest at 9.5%. This note is secured by a first mortgage on the property. In connection with this sale, the Company recorded a \$198 gain.

In June 1996, the Company sold certain assets and real property of its Pfaltz & Bauer, Inc. subsidiary for \$726, which included two notes receivable aggregating \$635. One note, in the amount of \$460, matures in July 2021 and bears interest at 9.25%. The other note, in the amount of \$175, matures in June 2003 and bears interest at prime plus 1%. The note for \$460 is payable monthly and is secured by a first mortgage on the real property. The note for \$175 is payable quarterly beginning in June 1999 and is collateralized by a security interest in the assets sold and contract rights. In connection with this sale of assets, the Company recorded a \$247 loss.

In connection with the sale of assets, the Company agreed to maintain \$275 of unencumbered funds for a period of seven years from the date of sale to secure the purchaser's rights and the Company's obligations under the terms of the agreement, including indemnification for certain environmental matters, if any arise. The unencumbered balance could be reduced to \$100 if certain environmental certifications were obtained. These certifications were received in September, 1996 and, therefore, the unencumbered balance was reduced accordingly. The payments on the notes are also subject to the purchaser's rights of set off as provided in the agreement which is identical to those affecting the unencumbered funds.

The Company holds a ten-year note maturing in October 2003 in the amount of \$256 secured by a first mortgage on the real property it sold in September 1993. This note is payable monthly with interest at prime plus 3% through September 1996 and prime plus 2 1/2% for the balance of the term.

(11) Profit-Sharing Plans The Company has profit-sharing plans in which employees of the parent company and subsidiaries are eligible to participate. The Company's annual contribution per employee, which is at management's discretion, is based on a percentage of compensation paid. The Company's provisions for profit sharing contribution amounted to \$607, \$664 and \$668 in fiscal 1997, 1996 and 1995, respectively.

(12) 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 companies of these products compensate the initial company for the cost of producing the necessary test data on a basis prescribed in the FIFRA regulations. Follow-on companies do not themselves generate or contract for the data. However, when FIFRA requirements mandate the generation of new test data to enable all company's to continue marketing a pesticide product, often both the initial and follow-on companies establish a task force to jointly undertake the testing effort. The

Company is presently a member of two such task force groups. The Company estimates the cost of test data at the time it is first required, which estimates are amortized over a period of up to five years, updated annually, and are included in cost of sales.

Liability under FIFRA would arise if the Company marketed pesticide products not registered under FIFRA, or failed to compensate the initial company for the cost of producing the necessary test data. Since the Company markets no pesticide products which are not registered, and compensates initial companies for the cost of producing test data, it believes it does not subject itself to contingent liabilities in such regard.

(b) The Company and its subsidiaries are subject to various claims which have arisen in the normal course of their 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.

(c) The Company enters into foreign exchange contracts entirely as hedges relating to foreign inventory purchase commitments. These financial instruments are designed to minimize exposure and reduce risk from exchange rate fluctuations in the regular course of business. Gains and losses on the foreign exchange contracts are reported as a component of the related transaction. At June 30, 1997 the Company had contracts maturing at various dates through April 10, 1998 to purchase approximately \$11,300 in foreign currencies (primarily British Pounds, Belgian Francs, German Marks and Japanese Yen).

(d) At June 30, 1997, the Company had non-negotiated letters of credit to purchase merchandise of approximately \$7,500, which approximated the fair value of the merchandise.

(e) The Company currently leases an office facility under an operating lease expiring April 2001. At June 30, 1997, future minimum lease payments in the aggregate and for each of the five succeeding years are as follows:

Fiscal year ending June 30	Amount
1998	\$ 555
1999	555
2000	555
2001	440
2002	-
	\$2,105

Total rental expense relating to the current office facility amounted to approximately \$480 for each of the years in the three-year period ended June 30, 1997.

(13) Segment Information The Company's operations, which principally consist of the marketing of chemicals, are considered to be one industry segment as defined by Financial Accounting Standards Board Statement No. 14.

(14) Business and Credit Concentrations None of the Company's customers accounted for as much as 10% of revenues in fiscal 1997 and 1996. One of the Company's customers accounted for 10% of revenues in fiscal 1995. One of the Company's suppliers accounted for 22%, 25% and 20% of total purchases in fiscal 1997, 1996 and 1995, respectively.

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 primarily in the United States. The Company estimates an allowance for doubtful accounts based upon the creditworthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors could affect the Company's estimate of its bad debts. The Company as a policy does not require collateral from its customers, however it maintains credit insurance covering certain non- United States receivables.

Schedule II

ACETO CORPORATION AND SUBSIDIARIES

Valuation and Qualifying Accounts

Years ended June 30, 1997, 1996 and 1995

Description	Balance at beginning of year	Charged to costs and expenses	Deduc- tions	Balance at end of year
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Year ended June 30, 1997:
Allowance for doubtful

accounts	\$ 207,366	80,379	68,379 (a)	\$ 219,366
Year ended June 30, 1996:				
Allowance for doubtful accounts	\$ 204,366	95,509	92,509 (a)	\$ 207,366
Year ended June 30, 1995:				
Allowance for doubtful accounts	\$ 176,366	111,191	83,191 (a)	\$ 204,366

(a) Specific accounts written off as uncollectible.

ARTICLE 5

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD END	JUN 30 1997
CASH	4,142
SECURITIES	10,013
RECEIVABLES	24,846
ALLOWANCES	219
INVENTORY	31,210
CURRENT ASSETS	73,374
PP&E	1,425
DEPRECIATION	1,125
TOTAL ASSETS	86,145
CURRENT LIABILITIES	24,447
BONDS	500
COMMON	60
PREFERRED MANDATORY	0
PREFERRED	750
OTHER SE	60,374
TOTAL LIABILITY AND EQUITY	86,145
SALES	169,387
TOTAL REVENUES	169,387
CGS	148,053
TOTAL COSTS	148,053
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	110
INCOME PRETAX	10,201
INCOME TAX	3973
INCOME CONTINUING	6,228
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	6,228
EPS PRIMARY	1.24
EPS DILUTED	1.24

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