

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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FILER

ACETO CORP

CIK: **2034** | IRS No.: **111720520** | State of Incorp.: **NY** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **000-04217** | Film No.: **95536043**
SIC: **2800** Chemicals & allied products

Mailing Address
*ONE HOLLOW LANE
LAKE SUCCESS NY 11042*

Business Address
*ONE HOLLOW LANE
LAKE SUCCESS NY 11042
5166276000*

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
Form 10-Q

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

For the quarter ended March 31, 1995 Commission file number 0-4217

ACETO CORPORATION

(Exact name of registrant as specified in its charter)

New York 11-1720520
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification Number)

One Hollow Lane, Lake Success, NY 11042
(Address of principal executive offices) (Zip Code)

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

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

NONE

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

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

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

Yes No

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

Common Stock - 4,988,783

ACETO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

| | For Nine Months Ended | |
|--|-----------------------|-----------|
| | March 31st | |
| | 1995 | 1994 |
| Net sales | \$120,969 | \$109,541 |
| Cost of sales | 103,456 | 93,398 |
| Gross profit | 17,513 | 16,143 |
| Selling, general and administrative expenses | 9,713 | 8,870 |
| Operating profit | 7,800 | 7,273 |
| Other income net of interest expense | 1,130 | 612 |
| Income before income taxes | 8,930 | 7,885 |
| Provision for income taxes | 3,443 | 2,846 |
| Net income | \$ 5,487 | \$ 5,039 |
| Net income per common share: | | |
| Primary | \$ 1.07 | \$ 0.98 |
| Fully diluted | \$ 1.06 | \$ 0.97 |

See accompanying notes to condensed consolidated financial statements.

ACETO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

| | For Three Months Ended | |
|--|------------------------|----------|
| | March 31st | |
| | 1995 | 1994 |
| Net sales | \$ 46,509 | \$44,272 |
| Cost of sales | 39,545 | 37,304 |
| Gross profit | 6,964 | 6,968 |
| Selling, general and administrative expenses | 3,203 | 3,313 |
| Operating profit | 3,761 | 3,655 |
| Other income net of interest expense | 464 | 226 |

| | | |
|------------------------------|----------|----------|
| Income before income taxes | 4,225 | 3,881 |
| Provision for income taxes | 1,635 | 1,354 |
| Net income | \$ 2,590 | \$ 2,527 |
| Net income per common share: | | |
| Primary | \$ 0.51 | \$ 0.50 |
| Fully diluted | \$ 0.50 | \$ 0.49 |

See accompanying notes to condensed consolidated financial statements.

ACETO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | Mar. 31st 1995 | June 30th 1994 |
|---|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,578 | \$ 5,122 |
| Short-term investments | 6,096 | 6,794 |
| Receivables: | | |
| Trade, less allowance for doubtful accounts: (March \$221; June \$176) | 29,684 | 23,579 |
| Other | 342 | 755 |
| | 30,026 | 24,334 |
| Inventories | 28,062 | 26,613 |
| Prepaid expenses | 155 | 548 |
| Deferred income tax benefit | 1,281 | 1,652 |
| Property held for sale | 625 | 644 |
| Total current assets | 67,823 | 65,707 |
| Long-term investments | 16,418 | 14,617 |
| Long-term notes receivable | 192 | 213 |
| Property and equipment, at cost: | | |
| Land | 140 | 140 |
| Buildings and building improvements | 886 | 886 |
| Equipment | 1,539 | 1,462 |
| | 2,565 | 2,488 |
| Less accumulated depreciation and amortization | 1,576 | 1,418 |

| | | |
|--------------|-----------|-----------|
| | 989 | 1,070 |
| Other assets | 191 | 191 |
| Total assets | \$ 85,613 | \$ 81,798 |

See accompanying notes to condensed consolidated financial statements.

ACETO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except par value)

| | Mar. 31st 1995 | June 30th 1994 |
|--|-------------------|-------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Drafts and acceptances payable | \$ 1,372 | \$ 1,350 |
| Current installments on long-term debt | 500 | 250 |
| Accounts payable | 3,832 | 2,811 |
| Accrued merchandise purchases | 8,323 | 8,845 |
| Accrued compensation | 3,676 | 3,323 |
| Accrued plant shut-down costs | 956 | 1,670 |
| Other accrued expenses | 1,921 | 2,033 |
| Income taxes payable | 1,630 | 1,819 |
| Total current liabilities | 22,210 | 22,101 |
| Long-term debt, excluding current installments | 1,500 | 2,000 |
| Deferred income taxes | 30 | 30 |
| Redeemable preferred stock (note 4) | 821 | 821 |
| Shareholders' equity (note 3): | | |
| Common stock, \$.01 par value per share; | | |
| Authorized 10,000 shares; | | |
| Issued: Mar., 5,530 shares; June, | 55 | 55 |
| 5,530 shares; outstanding: Mar., | | |
| 4,989 shares; June, 5,005 shares | | |
| Capital in excess of par value | 50,163 | 50,168 |
| Retained earnings | 17,389 | 12,842 |
| | 67,607 | 63,065 |
| Less: | | |
| Cost of common stock held in treasury; | | |
| Mar., 541 shares; June, 524 shares | 6,555 | 6,219 |
| Total shareholders' equity | 61,052 | 56,846 |

Total liabilities and shareholders' equity \$ 85,613 \$ 81,798

See accompanying notes to condensed consolidated financial statements.

ACETO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Nine Months Ended Mar. 31st. | |
|---|---------------------------------|----------|
| | 1995 | 1994 |
| Operating activities: | | |
| Net income | \$ 5,487 | \$ 5,039 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 220 | 234 |
| Write-down of assets to net realizable value | -- | 161 |
| Loss on sale of assets | -- | 145 |
| Effect of market value over original option price for options exercised | 240 | 133 |
| Increase in provision for losses on accounts receivable | 45 | 102 |
| Changes in operating assets and liabilities: | | |
| Decrease in investments - trading securities | 1,003 | -- |
| Increase in trade accounts receivable | (6,150) | (11,994) |
| Decrease in other receivables | 413 | 358 |
| Decrease(increase)in inventories | (1,449) | 5,746 |
| Decrease(increase)in prepaid expenses | 393 | (403) |
| Decrease(increase)in notes receivable | 21 | (218) |
| Decrease in deferred tax benefit | 371 | -- |
| Increase in drafts and acceptances payable | 22 | 67 |
| Increase in current installments on long-term debt | 250 | 250 |
| Increase in accounts payable | 1,021 | 2,537 |
| Increase in accrued compensation | 353 | 164 |
| Increase (decrease) in accrued merchandise purchases | (522) | 271 |
| Decrease in accrued plant shut-down costs | (714) | (1,675) |
| Decrease in other accrued expenses | (112) | (655) |
| Increase(decrease)in current taxes payable | (189) | 808 |
| Net cash provided by operating activities | 703 | 1,070 |
| Investing activities: | | |
| Purchases of investments - held-to-maturity | (5,784) | (42,589) |
| Proceeds from investments - held-to-maturity | 3,678 | 43,032 |
| Purchases of equipment | (120) | (92) |
| Proceeds from sale of plant and equipment | -- | 301 |
| Net cash provided by (used in) investing activities | (2,226) | 652 |
| Financing activities: | | |
| Payments of long-term debt | (500) | (500) |

| | | |
|--|----------|----------|
| Payments of cash dividends | (940) | (843) |
| Proceeds from exercise of stock options | 158 | 254 |
| Payments for purchases of treasury stock | (739) | (793) |
| Net cash used in financing activities | (2,021) | (1,882) |
| Net decrease in cash and cash equivalents | (3,544) | (160) |
| Cash and cash equivalents at beginning of period | 5,122 | 5,616 |
| Cash and cash equivalents at end of period | \$ 1,578 | \$ 5,456 |

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except amounts and par value per share)

Note 1:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements included all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position at March 31, 1995 and June 30, 1994 and the results of operations and statements of cash flows for the nine months ended March 31, 1995 and March 31, 1994. The results are not necessarily indicative of those to be expected for the full fiscal year.

Note 2: Interest and Other Income

| | For Nine Months Ended March 31 | | For Three Months Ended March 31 | |
|--------------------------------------|--------------------------------------|--------|---------------------------------------|--------|
| | 1995 | 1994 | 1995 | 1994 |
| Dividends | \$ 15 | \$ 29 | \$ 4 | \$ 1 |
| Interest on investments | 1,154 | 965 | 394 | 319 |
| Net gain (loss) on investments | (17) | (166) | 39 | (80) |
| Miscellaneous other income (loss) | 127 | (29) | 73 | 46 |
| | \$1,279 | \$ 799 | \$ 510 | \$ 286 |

Note 3: Income per Common Share

Income per common share is determined based on the weighted average number of common and common equivalent shares outstanding (primary 5,068 and 5,087 fully diluted, 5,165 and 5,187 for the quarters ended March 31, 1995 and March 31, 1994, respectively; primary 5,074 and 5,101 fully diluted, 5,170 and 5,198 for the nine months ended March 31, 1995 and March 31, 1994, respectively). Fully diluted income per share calculations also include the shares issuable upon conversion of preferred stock, if dilutive.

Note 4: Redeemable Preferred Stock

The Company has 2,000,000 authorized shares of convertible 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. Redeemable preferred stock outstanding at March 31, 1995 and June 30, 1994 consists of the following:

| | Shares | Par Value |
|----------------|---------|-----------|
| Second series | 28,316 | \$ 71 |
| 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 |
| | | \$ 821 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The second, 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 8.4, 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 second, 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.

Note 5: Supplemental Cash Flow Information

Cash paid for interest and income taxes during the nine months ended March 31, 1995 and 1994 are as follows:

| | 1995 | 1994 |
|--------------|--------|--------|
| Interest | \$ 150 | \$ 190 |
| Income taxes | 3,152 | 1,916 |

Note 6: Investments

Investments at March 31, 1995 and 1994 consist of U.S. Treasury, corporate debt and equity securities. The Company adopted the provision of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investment in Debt and Equity Securities as of July 1, 1994. Under Statement 115, the Company classifies its debt and marketable 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 near term. Held-to-maturity are those securities in which the Company has the ability and intent to hold until maturity.

Trading securities are recorded at fair value. Unrealized holding 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, adjusted for the amortization or accretion of premiums or discounts over the life of the related security.

At March 31, 1995, short-term investments consisted of \$5,873 trading securities and \$223 held-to-maturity securities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES:

The Company's ability to generate cash from operations is considered adequate to cover both short-term and long-term liquidity. At March 31, 1995 and June 30, 1994 the Company's cash and short-term investments totaled \$7.7 million and \$11.9 million and working capital was \$45.6 million and \$43.6 million, respectively. Additionally, the Company had liquid long-term investments of \$16.4 million at March 31, 1995 and \$14.6 million at June 30, 1994.

The significant increase in trade receivables to \$29.7 million at March 31, 1995 from \$23.6 million at June 30, 1994 can be attributed mostly to the granting of extended payment terms for sales of some of our agricultural products to meet competition. This increase in trade receivables is reflected somewhat in the decrease in cash and cash equivalents to \$1.6 million at March 31, 1995 compared to \$5.1 million at June 30, 1994.

The shut-down of the Company's manufacturing facility has reduced the amount of cash required for working capital and capital expenditures. As a result, the increase in long-term investments to \$16.4 million at March 31, 1995 compared to \$14.6 million at June 30, 1994 can be attributed partially to the reduced capital requirement allowing a small shift of short-term investments to longer maturities.

Expenditures relating mostly to environmental compliance accounted for the decrease in accrued plant shut-down costs to \$1.0 million at March 31, 1995 compared to \$1.7 million at June 30, 1994.

RESULTS OF OPERATIONS:

The increase in net sales of \$11.4 million (10%) for the nine month period ended March 31, 1995 compared to the same period last year was the result of stronger sales of our

agricultural, dye intermediate and industrial chemical products. The \$2.2 million (5%) improvement in the three month comparable periods can be attributed to increased sales of agricultural and dye intermediate products.

Gross profit margins declined slightly to 14.5% and 15.0% from 14.7% and 15.7% for the nine and three months ended March 31, 1995 compared to the same periods last year. Increased sales of a low margin agricultural herbicide accounted for the declines.

Selling, general and administrative expenses were \$9.7 million and \$8.9 million for the nine months ended March 31, 1995 compared to March 31, 1994. An insurance recovery of \$0.6 million received in September 1993 was the major factor for the lower level of expenses during last year's nine month period. The balance of expenses other than this non-recurring item were only slightly higher. For the three months ended March 31, 1995 expenses actually declined from the same period last year. Reductions in the amount accrued for compensation and prior period accruals for claims resulted in the decrease in expenses. Without these two adjustments expenses were virtually unchanged in the comparable three month periods.

Realized and unrealized gains on trading securities of \$55,000 and \$53,000 for the nine and three months ended March 31, 1995 compared to losses of \$166,000 and \$75,000 for the same periods last year were the major factors for the increase in other income for both comparable periods. In addition, last year's nine month period included a loss on the sale of real estate of \$145,000 which contributed to last year's lower level.

The effective tax rates increased to 38.6% and 38.7% from 36.1% and 35.0% in the nine and three months ended March 31, 1995 compared to the same periods last year. The lower rates last year were due primarily to the use of state carryover tax losses by certain subsidiary companies. In addition, both the nine and three months ended March 31, 1994 included an adjustment of the prior year's tax accrual which was also a factor in last year's lower effective tax rate.

Item 5: Other Information

On February 10, 1995, the U.S. Department of Justice sent a letter and a draft complaint to Pfaltz & Bauer, Inc., a wholly owned subsidiary of Aceto Corporation, alleging that Pfaltz & Bauer had violated the Resource Conservation and Recovery Act (RCRA) with respect to the storage of certain hazardous wastes at Pfaltz & Bauer's Waterbury, Connecticut

facility in 1991 - 1993. The letter indicated that if a settlement was not reached the government contemplated filing a lawsuit against Pfaltz & Bauer seeking civil penalties. The draft complaint did not allege that Pfaltz & Bauer's actions resulted in any discharge of hazardous materials to the environment, or in any harm to human health or the environment. While Pfaltz & Bauer believes that it has defenses to the allegations in the draft complaint, it has begun negotiations with the government to settle the matter. Negotiations are continuing, and the government has not filed its complaint with a court.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ACETO CORPORATION

DATE April 28, 1995 BY (signed) / by Donald Horowitz
Donald Horowitz, Chief Financial Officer

DATE April 28, 1995 BY (signed) / by Arnold Frankel
Arnold Frankel, Chief Executive Officer

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