



## **Dear Fellow Shareholders:**

The economic environment which all companies found themselves conducting their business in fiscal 2009 was very difficult to say the least. We are not satisfied with the operating results that we reported for fiscal 2009, irrespective of the very difficult market conditions that we found, and continue to find, ourselves operating in. The challenge which we face now is how to best navigate these difficult economic times and position ourselves in a way to take advantage of a recovery that will eventually take place.

With this as a backdrop, I am pleased to share with you our 2009 fiscal year results and then review the progress that we have made regarding our strategic initiatives for growth.

### **Fiscal 2009 Financial Results**

For the fiscal year ended June 30, 2009, net sales declined 10.3% to \$322.6 million compared to the record level of sales, \$359.6 million which we reported in fiscal 2008. Our gross profit decreased 17.4% to \$55.6 million compared to \$67.3 million in fiscal 2008 and our gross margin decreased to 17.2% from 18.7% in the last fiscal year. Selling, general and administrative expenses declined \$1.8 million, or 4.1%, to \$43.5 million in fiscal 2009 from \$45.4 million in fiscal 2008. Net income was \$8.5 million or \$0.34 per diluted share in fiscal 2009, compared to \$13.5 million or \$0.54 per diluted share in fiscal 2008.

### **Strategic Initiatives**

As we discussed in last year's Annual Report, we have several initiatives for growth which we call Strategic Initiatives. These represent areas where we believe there is a potential business opportunity. Once a Strategic Initiative gains traction and starts to provide some meaningful results to the Company's bottom line, we stop calling it a Strategic Initiative and incorporate it in one of our three business segments, Health Sciences, Chemicals & Colorants and Crop Protection. It is with this history as a backdrop that I would like to take a look at the status of our current Strategic Initiatives.

#### **Vaccines for Companion Animals**

This has been a Strategic Initiative that has faced numerous obstacles over the years but we believe that we are finally approaching a successful conclusion to the process. Early in fiscal 2009, the USDA approved the protocol for a field safety test and issued Aceto a permit to import the necessary quantities of vaccine to begin the testing. This is not a test to see if the vaccine works or not, that testing was already successfully concluded. This is a test to see if the vaccine causes any adverse drug reactions when administered to the dogs. I am pleased to report that the field safety testing has been completed and we are now in the process of compiling all of the data from the tests so it can be submitted to the USDA. As a result, we believe that we have now complied with all of the testing requirements of the USDA. While we remain confident, please be reminded that this is a regulatory review and while we are doing everything that we can to try and expedite the process, there can be no assurance given as to when the approval process will be 100% completed.

#### **Entering the Japanese Pharmaceutical Market**

When we made the decision to enter the Japanese pharmaceutical market, we knew that the conservative nature of the Japanese would make our ability to enter this market slower than entering other markets in the past. In fiscal 2009 we continued to move forward in Japan, progressing from the smaller trial orders we had initially been receiving and have now executed our first commercial order. In response to what we see as an accelerating pace of acceptance of Aceto in a traditionally reluctant Japanese market which we measure by the increasing number of companies that we are working with, we have added to our resources there and hired a native Japanese chemist who will provide technical support in the Japanese market. The market for pharmaceutical intermediates in Japan is second only to that of the United States and we remain confident that we will be successful with our efforts there.

## **Finished Dosage Form Generic Drugs**

I am pleased to report that our Strategic Initiative to sell finished dosage form generic drugs continues to move forward. In fiscal 2009 we received orders for three finished dosage form drugs, Ondansetron and Granisetron, both anti-nausea drugs, and a prescription strength pain killer. We continue to see this as not only as a good business opportunity but also as a viable long-term business for Aceto and are working diligently at enhancing our pipeline of products, some of which we anticipate launching in fiscal 2010.

## **Crop Protection Business**

One business segment that I am particularly excited about is our Crop Protection segment. In fiscal 2009, we received EPA registrations (licenses to sell) for two products, Halosulfuron and Glyphosate. We successfully entered the Halosulfuron market in fiscal 2009 and we plan to enter the Glyphosate market for the 2010 growing season. Glyphosate is the generic version of Roundup® and is the number one selling herbicide for both crop and non crop protection uses. In addition to these products, we have several other crop protection products where we have either filed, or plan to file, with the EPA for registrations. For these products, we have already qualified suppliers and have customers ready to purchase.

Another development in the Crop Protection segment is the EPA approval that we received for an additional new use for an existing Aceto proprietary product, Elast, a fungicide used on pecans. The EPA approval allows us to use the product on peanuts, a significantly larger market than the pecan market.

The U.S. market for generic crop protection products continues to grow as more and more branded products come off patent and Aceto is uniquely positioned to capitalize on this trend by leveraging our core business competencies, sourcing and regulatory support, and our financial strength and source these products from China, the largest producer by volume of agrochemicals in the world.

## **A Look Ahead**

We believe in this type of economic environment, it is imperative for us to maintain a safe and strong balance sheet, one that allows us to continue to execute our existing core business and also take advantage of market and business opportunities that might present themselves for the company to grow. A cash position of almost \$58 million and no long-term debt clearly demonstrates the strength of our balance sheet. In fiscal 2009, we decided to create a definable, industrial brand, for Aceto. Our brand, which we have been promoting across a range of our business segments and geographical areas, is "Enabling Quality Worldwide" which truly represents our core strengths, the ability to source quality products from the most cost effective global sources that meet the needs of our customers, the global chemical, pharmaceutical and agrochemical industries.

We ended fiscal 2009 with working capital of \$124.7 million, no long-term bank debt and shareholders' equity of \$141.6 million. This level of working capital provides us with the financial strength to capitalize on the sourcing opportunities and continue to move our Strategic Initiatives forward. We remain optimistic about the Company's long-term business prospects, with our core businesses serving as a solid foundation for future growth and not forgetting that we need to continue to focus on strong cost controls.

We would like to thank our employees, shareholders, customers, suppliers and other stakeholders for supporting our past efforts and for their continued support as we move forward together, towards a promising future. We look forward to updating you on Aceto's Strategic Initiatives and results in the future.

Sincerely,

Leonard S. Schwartz  
Chairman and Chief Executive Officer