ACETO CORP
Form 10-Q/A
October 12, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q-A

(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Commission file number 000-04217

ACETO CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(516) 627-6000

(Registrant's telephone number, including area code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The registrant had 30,788,044 shares of common stock outstanding as of May 1, 2018.

Explanatory Note

(all dollar amounts in this Explanatory Note are expressed in thousands)

Aceto Corporation (the "Company") is filing this Amendment No. 1 ("Amendment No. 1") to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, which was filed with the Securities and Exchange Commission ("SEC") on May 7, 2018 (the "Original Filing"), to amend and restate the Company's unaudited consolidated condensed financial statements and related notes for the three and nine months ended March 31, 2018 and 2017, as discussed below and in Notes 2 and 12 to the accompanying restated consolidated condensed financial statements, as well as to amend certain other Items within the Original Filing as listed in "Items Amended in this Filing" below, as a result of the restatement of the Company's consolidated condensed financial statements. Certain reclassifications between trade receivables and accrued expenses to the June 30, 2017 consolidated balance sheet, which have been reflected in the Company's Annual Report on Form 10-K for the year ended June 30, 2018 are not reflected in the June 30, 2017 consolidated balance sheet presented herein.

Background of the Restatement

On September 26, 2018, the Audit Committee (the "Audit Committee") of the Board of Directors of the Company, in consultation with management and the Company's independent registered public accounting firm, BDO USA, LLP ("BDO"), determined that the Company's unaudited consolidated condensed financial statements for the three and nine months ended March 31, 2018 (the "Relevant Financial Statements") incorrectly accounted for a valuation allowance related to deferred tax assets and should be restated to reflect this allowance (the "Restatement"). This incorrect valuation allowance has no effect on the Company's cash position or operating expenses and is solely related to the appropriate timing of the recording of a valuation allowance reserved against U.S. deferred tax assets.

At the time of the March 31, 2018 Form 10-Q filing, the Company believed that the carrying value of its deferred tax assets was appropriate based on its view that it was more likely than not that this deferred tax asset would be realized in future periods. In preparing its consolidated financial statements for the year ended June 30, 2018, the Company determined, in consultation with BDO, based on management's review of current and historical performance, internal projections and industry data and applicable accounting literature, that it should recognize a valuation allowance equal to the entire carrying value of the Company's U.S. deferred tax assets. However, upon further review of the negative and positive objective evidence and applicable accounting literature, the Company determined, in consultation with BDO, that a full valuation allowance on domestic net deferred tax assets should have been recorded as of the end of its third fiscal quarter rather than as of the end of its fourth fiscal quarter. As a result, the Company has determined to record a valuation allowance of approximately $71,350 on its U.S. deferred tax assets at March 31, 2018.

The impact of this Restatement on the Company's consolidated statements of operations for the three and nine months ended March 31, 2018 is to increase income tax expense and net loss by approximately $71,350.

For the quarter ended March 31, 2018	**As reported**	**Adjustment**	**As restated**
Loss before income taxes	$ (263,037)	$ -	$ (263,037)
Income tax (benefit) provision	(66,402)	71,350	4,948
Net loss	(196,635)	(71,350)	(267,985)
Loss per diluted share	$ (5.57)	$ (2.02)	$ (7.59)

For the nine months ended March 31, 2018	**As reported**	**Adjustment** $	**As restated**
Loss before income taxes	$ (261,398)	-	$ (261,398)
Income tax (benefit) provision	(51,353)	71,350	19,997
Net loss	(210,045)	(71,350)	(281,395)
Loss per diluted share	$ (5.97)	$ (2.03)	$ (8.00)

For additional information regarding the impact of the Restatement on the Company's financial statements, see Note 2 of the notes to the Company's consolidated financial statements.

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On September 26, 2018, the Audit Committee concluded that the Relevant Financial Statements and related disclosures included in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, should no longer be relied upon. This Amendment No. 1 reflects the Restatement. The Restatement has no effect on the Company's consolidated balance sheet as of June 30, 2018 and consolidated statement of operations for the year ended June 30, 2018, which financial statements were filed on September 28, 2018 with the Company's Annual Report on Form 10-K for the year ended June 30, 2018. The Annual Report reflected the results of the Restatement in Note 20 to the Company's consolidated financial statements, entitled "Unaudited Quarterly Financial Data."

Internal Control Considerations

The Company's management determined that there was a control deficiency in its internal control that constitutes a material weakness, as discussed in Part I — Item 4 of this Amendment No. 1. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Items Amended in This Filing

For the convenience of the reader, this Amendment No. 1 sets forth the Original Filing, as modified and superseded where necessary to reflect the Restatement. The following items have been amended as a result of, and to reflect, the Restatement:

- Part I — Item 1. Financial Statements;

- Part I — Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; and

- Part I — Item 4. Controls and Procedures.

In accordance with applicable SEC rules, this Amendment No. 1 includes new certifications required by Rule 13a-14 under the Securities and Exchange Act of 1934 ("Exchange Act") from our Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amendment No. 1.

Except for the items noted above, no other information included in the Original Filing is being amended or updated by this Amendment No. 1. This Amendment No. 1 continues to describe the conditions as of the date of the Original Filing, and, except as contained herein, the Company has not updated or modified the disclosures contained in the Original Filing. Accordingly, this Amendment No. 1 should be read in conjunction with the Company’s filings made with the SEC subsequent to the filing of the Original Filing, including the Company’s Annual Report on Form 10-K.

ACETO CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10Q-A FOR THE PERIOD ENDED MARCH 31, 2018

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

This Quarterly Report on Form 10-Q/A contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to our business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, financing plans, projected or anticipated benefits from acquisitions that we may make, or projections involving anticipated revenues, earnings or other aspects of our operating results or financial position, and the outcome of any contingencies. Any such forward-looking statements are based on current expectations, estimates and projections of management. We intend for these forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements. Words such as “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “plan,” “intend,” “estimate,” and “continue,” and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to the risks and uncertainties discussed in Item 1A of this Quarterly Report on Form 10-Q/A, the Company’s Annual Report on Form 10-K for the year ended June 30, 2017, as amended and other filings.

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share amounts)

	March 31, 2018 (as restated) (unaudited)	**June 30, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,032	$ 55,680
Investments	3,059	2,046
Trade receivables, less allowance for doubtful accounts (March 31, 2018, $805; June 30, 2017, $485)	260,168	260,889
Other receivables	15,771	12,066
Inventory	141,669	136,387
Prepaid expenses and other current assets	4,942	3,941
Deferred income tax asset, net	-	546
Total current assets	487,641	471,555
Property and equipment, net	14,002	10,428
Property held for sale	6,250	7,152
Goodwill	1,939	236,970
Intangible assets, net	241,513	285,081
Deferred income tax asset, net	-	19,453
Other assets	9,846	7,546
TOTAL ASSETS	$ 761,191	$ 1,038,185
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 190,723	$ 14,466
Accounts payable	125,083	90,011
Accrued expenses	119,389	118,328
Total current liabilities	435,195	222,805
Long-term debt, net	128,697	339,200

Long-term liabilities	63,623	61,449
Environmental remediation liability	383	2,339
Deferred income tax liability	1,261	7,325
Total liabilities	629,159	633,118
Commitments and contingencies (Note 8)		
Shareholders’ equity:		
Preferred stock, 2,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $.01 par value, 75,000 shares authorized; 30,839 and 30,094 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively	308	301
Capital in excess of par value	221,253	214,198
Retained (deficit) earnings	(91,704)	195,680
Accumulated other comprehensive income (loss)	2,175	(5,112)
Total shareholders’ equity	132,032	405,067
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 761,191	$ 1,038,185

See accompanying notes to condensed consolidated financial statements and accountants’ review report.

ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per-share amounts)

	Nine months Ended March 31,	
	2018 (as restated)	2017
Net sales	$542,482	$443,698
Cost of sales	440,833	339,735
Gross profit	101,649	103,963
Selling, general and administrative expenses	87,241	75,614
Impairment charges	256,266	-
Research and development expenses	6,208	4,998
Operating (loss) income	(248,066)	23,351
Other (expense) income:		
Interest expense	(15,443)	(10,223)
Interest and other income, net	2,111	1,230
	(13,332)	(8,993)
(Loss) income before income taxes	(261,398)	14,358
Income tax provision	19,997	4,949
Net (loss) income	$(281,395)	$9,409
Basic (loss) income per common share	$(8.00)	$0.30
Diluted (loss) income per common share	$(8.00)	$0.30
Weighted average shares outstanding:		
Basic	35,162	31,453
Diluted	35,162	31,792

See accompanying notes to condensed consolidated financial statements and accountants' review report.

ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per-share amounts)

	Three months Ended March 31, 2018 (as restated)	2017
Net sales	$185,998	$190,128
Cost of sales	158,302	147,809
Gross profit	27,696	42,319
Selling, general and administrative expenses	28,029	26,519
Impairment charges	256,266	-
Research and development expenses	2,471	2,607
Operating (loss) income	(259,070)	13,193
Other (expense) income:		
Interest expense	(5,040)	(5,321)
Interest and other income, net	1,073	640
	(3,967)	(4,681)
(Loss) income before income taxes	(263,037)	8,512
Income tax provision	4,948	2,924
Net (loss) income	$(267,985)	$5,588
Basic (loss) income per common share	$(7.59)	$0.16
Diluted (loss) income per common share	$(7.59)	$0.16
Weighted average shares outstanding:		
Basic	35,304	34,769
Diluted	35,304	35,121

See accompanying notes to condensed consolidated financial statements and accountants' review report.

ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and in thousands)

	Nine months Ended March 31,		**Three months Ended March 31,**	
	2018 (as restated)	2017	2018 (as restated)	2017
Net (loss) income	$ (281,395)	$ 9,409	$ (267,985)	$ 5,588
Other comprehensive (loss) income:				
Foreign currency translation adjustments	5,167	(2,201)	1,941	947
Change in fair value of interest rate swaps	2,120	(249)	1,138	(249)
Comprehensive (loss) income	$ (274,108)	$ 6,959	$ (264,906)	$ 6,286

See accompanying notes to condensed consolidated financial statements and accountants' review report.

ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Nine months Ended March 31,	
	2018 (as restated)	2017
Operating activities:		
Net (loss) income	$(281,395)	$9,409
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	24,608	15,301
Amortization of debt issuance costs and debt discount	4,603	4,355
Amortization of deferred financing costs	833	300
Provision for doubtful accounts	305	(18)
Non-cash stock compensation	6,442	5,239
Deferred income taxes	11,714	627
Environmental charge	902	903
Earnings on equity investment in joint venture	(1,990)	(1,558)
Contingent consideration	(2,505)	-
Impairment charges	256,266	-
Changes in assets and liabilities:		
Trade accounts receivable	2,573	(14,839)
Other receivables	(3,662)	1,664
Inventory	(3,102)	(3,778)
Prepaid expenses and other current assets	(927)	(424)
Other assets	(2,202)	215
Accounts payable	34,224	18,857
Accrued expenses and other liabilities	9,728	(4,702)
Net cash provided by operating activities	56,415	31,551
Investing activities:		
Payment for net assets of business acquired	-	(270,000)
Purchases of investments	(2,880)	(1,824)
Sales of investments	1,867	775
Payments for intangible assets	(779)	(3,077)
Purchases of property and equipment, net	(4,677)	(1,386)
Net cash used in investing activities	(6,469)	(275,512)
Financing activities:		
Payment of cash dividends	(5,924)	(5,944)

Proceeds from exercise of stock options	595	550
Excess tax benefit on stock option exercises and restricted stock	-	551
Borrowings of bank loans	-	265,000
Payment for deferred financing costs	-	(5,407)
Repayment of bank loans	(39,398)	(16,898)
Net cash (used in) provided by financing activities	(44,727)	237,852
Effect of exchange rate changes on cash	1,133	(757)
Net increase (decrease) in cash	6,352	(6,866)
Cash and cash equivalents at beginning of period	55,680	66,828
Cash and cash equivalents at end of period	$62,032	$59,962

Non-Cash Item

In connection with the acquisition of certain products and related assets of entities referred to herein as Citron and Lucid, approximately 5,122 shares of Aceto common stock with a fair value of $90,400, to be issued beginning on December 21, 2019, is a non-cash item and is excluded from the Condensed Consolidated Statement of Cash Flows during the nine months ended March 31, 2017.

See accompanying notes to condensed consolidated financial statements and accountants' review report

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited and in thousands, except per-share amounts)

(1) Basis of Presentation

The condensed consolidated financial statements of Aceto Corporation and subsidiaries (“Aceto” or the “Company”) included herein have been prepared by the Company and reflect all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented. Interim results are not necessarily indicative of results which may be achieved for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements and the disclosure of contingent assets and liabilities at the date of the financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. The Company’s most critical accounting policies relate to revenue recognition; allowance for doubtful accounts; inventory; goodwill and other indefinite-life intangible assets; long-lived assets; environmental matters and other contingencies; income taxes; stock-based compensation; and purchase price allocation.

These condensed consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with GAAP. Accordingly, these statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended June 30, 2017, as amended (the “2017 10-K”).

(2) Restatement of Previously Issued Financial Statements

As previously disclosed, the Company determined that it incorrectly accounted for a valuation allowance related to U.S. net deferred tax assets. At the time of the March 31, 2018 Form 10-Q filing, the Company believed that the carrying value of its deferred tax assets was appropriate based on its view that it was more likely than not that this deferred tax asset would be realized in future periods. In preparing its consolidated financial statements for the year ended June 30, 2018, the Company determined, in consultation with BDO USA, LLP (“BDO”), based on management's review of current and historical performance, internal projections and industry data and applicable accounting literature, that it should recognize a valuation allowance equal to the entire carrying value of the Company's U.S. deferred tax assets. However, upon further review of the negative and positive objective evidence and applicable accounting literature, the Company determined, in consultation with BDO, that a full valuation allowance on domestic net deferred tax assets should have been recorded as of the end of its third fiscal quarter rather than as of the end of its fourth fiscal quarter. As a result, the Company has determined to record a valuation allowance of approximately $71,350 on its U.S. deferred tax assets at March 31, 2018.

As a result, the Company is restating its condensed consolidated financial statements for the three and nine months ended March 31, 2018. The following financial tables reconcile the previously reported amounts to the restated amounts for each condensed consolidated financial statement.

The table below sets forth the condensed consolidated balance sheet, including the balances originally reported, corrections and the as restated balances for March 31, 2018 (in thousands):

	As Reported	Adjustment	As Restated
Assets			
Deferred income tax asset, net	$ 70,089	$ (70,089)	$ -
Total assets	831,280	(70,089)	761,191
Liabilities and Shareholders' Equity			
Deferred income tax liability	-	1,261	1,261
Total liabilities	627,898	1,261	629,159
Retained deficit	(20,354)	(71,350)	(91,704)
Total shareholders' equity	203,382	(71,350)	132,032
Total liabilities and shareholders' equity	$ 831,280	$ (70,089)	$ 761,191

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited and in thousands, except per-share amounts)

The tables below set forth the condensed consolidated statements of loss, including the balances originally reported, corrections and the as restated balances for the three and nine months ended March 31, 2018 (in thousands, except per share data):

	As Reported	**Adjustment**	**As Restated**
Three months ended March 31, 2018			
Income tax (benefit) provision	$ (66,402)	$ 71,350	$ 4,948
Net loss	$ (196,635)	$ (71,350)	$ (267,985)
Basic loss per common share	$ (5.57)	$ (2.02)	$ (7.59)
Diluted loss per common share	$ (5.57)	$ (2.02)	$ (7.59)

	As Reported	Adjustment	As Restated
Nine months ended March 31, 2018			
Income tax (benefit) provision	$ (51,353)	$ 71,350	$ 19,997
Net loss	$ (210,045)	$ (71,350)	$ (281,395)
Basic loss per common share	$ (5.97)	$ (2.03)	$ (8.00)
Diluted loss per common share	$ (5.97)	$ (2.03)	$ (8.00)

The tables below set forth the condensed consolidated statements of comprehensive income, including the balances originally reported, corrections and the as restated balances for the three and nine months ended March 31, 2018 (in thousands):

	As Reported	Adjustment	As Restated
Three months ended March 31, 2018			
Net loss	$ (196,635)	$ (71,350)	$ (267,985)
Comprehensive loss	$ (193,556)	$ (71,350)	$ (264,906)

	As Reported	Adjustment	As Restated
Nine months ended March 31, 2018			
Net loss	$ (210,045)	$ (71,350)	$ (281,395)
Comprehensive loss	$ (202,758)	$ (71,350)	$ (274,108)

The table below sets forth the condensed consolidated statements of cash flows from operating activities, including the balances originally reported, corrections and the as restated balances for the nine months ended March 31, 2018 (in thousands):

	As Reported	Adjustment	As Restated
Nine months ended March 31, 2018			
Net loss	$ (210,045)	$ (71,350)	$ (281,395)
Deferred income taxes	(80,207)	91,921	11,714
Accrued expenses and other liabilities	30,299	(20,571)	9,728
Net cash provided by operating activities	56,415	-	56,415

As indicated above, there was no impact on net cash provided by operating activities as the valuation allowance is a non-cash item. In addition, the restatement had no impact on cash flows from investing activities or financing activities.

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited and in thousands, except per-share amounts)

(3) Business Combinations

On December 21, 2016, wholly owned subsidiaries of Rising Pharmaceuticals, Inc. ("Rising"), a wholly owned subsidiary of Aceto, completed the acquisition of certain generic products and related assets of entities formerly known as Citron Pharma LLC ("Citron") and its affiliate Lucid Pharma LLC ("Lucid"). Citron was a privately-held New Jersey-based pharmaceutical company focused on developing and marketing generic pharmaceutical products in partnership with leading generic pharmaceutical manufacturers based in India and the United States. Lucid was a privately-held New Jersey-based generic pharmaceutical distributor specializing in providing cost-effective products to various agencies of the U.S. Federal Government including the Veterans Administration and the Defense Logistics Agency. Lucid serviced 18 national contracts with the Federal Government, nearly all of which had 5-year terms.

Aceto and Citron possess complementary asset-light business models, drug development and manufacturing partnerships and product portfolios. The Company believes consistent with its strategy of expanding Rising's portfolio of finished dosage form generic products through product development partnerships and acquisitions of late stage assets, abbreviated new drug applications ("ANDAs") and complementary generic drug businesses, this transaction significantly expanded its roster of commercialized products and pipeline of products under development. In addition, the Company believes that this product acquisition greatly enhanced its size and stature within the generic pharmaceutical industry, expanded its partnership network and offers the Company opportunities to realize meaningful cost and tax efficiencies.

At closing, Aceto paid the sellers $270,000 in cash, committed to make a $50,000 unsecured deferred payment that will bear interest at a rate of 5% per annum to the sellers on December 21, 2021 and agreed to issue 5,122 shares of Aceto common stock beginning on December 21, 2019. The product purchase agreement also provides the sellers with a 5-year potential earn-out of up to an additional $50,000 in cash, based on the financial performance of four pre-specified pipeline products that are currently in development. In the third quarter of fiscal 2018, the Company reversed $2,505 of contingent consideration due to management's evaluation and assessment of the financial performance of these products. As of March 31, 2018, the Company accrued $663 related to this contingent consideration.

Rising formed two subsidiaries to consummate the product acquisition – Rising Health, LLC (which acquired certain products and related assets of Citron) and Acetris Health, LLC (which acquired certain products and related assets of

Lucid).

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited and in thousands, except per-share amounts)

(4) Stock-Based Compensation

Under the Aceto Corporation 2015 Equity Participation Plan (the “2015 Plan”), grants of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards (“Stock Awards”) may be offered to employees, non-employee directors, consultants and advisors of the Company, including the chief executive officer, chief financial officer and other named executive officers. The maximum number of shares of common stock of the Company that may be issued pursuant to Stock Awards granted under the 2015 Plan will not exceed, in the aggregate, 4,250 shares. Performance-based awards may be granted, vested and paid based on the attainment of specified performance goals.

Under the Aceto Corporation 2010 Equity Participation Plan (as amended and restated in 2012, the “2010 Plan”), grants of stock options, restricted stock, restricted stock units, stock appreciation rights, and stock bonuses may be made to employees, non-employee directors and consultants of the Company. The maximum number of shares of common stock of the Company that may be issued pursuant to awards granted under the 2010 Plan will not exceed, in the aggregate, 5,250 shares. In addition, restricted stock may be granted to an eligible participant in lieu of a portion of any annual cash bonus earned by such participant. Such award may include additional shares of restricted stock (premium shares) greater than the portion of bonus paid in restricted stock. The restricted stock award is vested at issuance and the restrictions lapse ratably over a period of years as determined by the Board of Directors, generally three years. The premium shares vest when all the restrictions lapse, provided that the participant remains employed by the Company at that time.

During the nine months ended March 31, 2018, the Company granted 490 shares of restricted common stock to its employees that vest over three years and 27 shares of restricted stock to its non-employee directors, which vest over approximately one year. In addition, the Company also issued a target grant of 203 performance-vested restricted stock units, which grant could be as much as 355 units if certain performance criteria and market conditions are met. These performance-vested restricted stock units will cliff vest 100% at the end of the third year following grant in accordance with the performance metrics set forth in the applicable employee performance-vested restricted stock unit grant.

During the year ended June 30, 2017, the Company granted 277 shares of restricted common stock to its employees that vest over three years and 22 shares of restricted common stock to its non-employee directors, which vest over approximately one year as well as 42 restricted stock units that have varying vest dates through July 2017. In addition, the Company also issued a target grant of 160 performance-vested restricted stock units, which grant could be as much as 280 if certain performance criteria and market conditions are met. These performance-vested restricted stock units will cliff vest 100% at the end of the third year following grant in accordance with the performance metrics set forth in the applicable employee performance-vested restricted stock unit grant.

For the three and nine months ended March 31, 2018, the Company recorded stock-based compensation expense of approximately $1,931 and $6,426, respectively, related to restricted common stock and restricted stock units. Included in the $6,426 for the nine months ended March 31, 2018 is $431 in stock-based compensation expense associated with the retirement of a Chief Financial Officer in March 2018 and $2,017 in stock-based compensation expense associated with the separation of the Company’s former Chief Executive Officer in September 2017. For the three and nine months ended March 31, 2017, the Company recorded stock-based compensation expense of approximately $1,506 and $5,213, respectively, related to restricted common stock and restricted stock units. As of March 31, 2018, the total unrecognized stock-based compensation cost is approximately $7,864.

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(5) Capital Stock

On May 3, 2018, the Company’s Board of Directors declared a quarterly dividend of $0.01 per share which will be paid on June 22, 2018 to shareholders of record as of June 8, 2018.

On February 1, 2018, the Company’s Board of Directors declared a regular quarterly dividend of $0.065 per share which was paid on March 23, 2018 to shareholders of record as of March 9, 2018.

On December 7, 2017, the Company's Board of Directors declared a regular quarterly dividend of $0.065 per share which was paid on December 28, 2017 to shareholders of record as of December 18, 2017.

On August 24, 2017, the Company's Board of Directors declared a regular quarterly dividend of $0.065 per share which was paid on September 21, 2017 to shareholders of record as of September 8, 2017.

On May 4, 2017, the Board of Directors of the Company authorized the continuation of the Company’s stock repurchase program, expiring in May 2020. Under the stock repurchase program, the Company is authorized to purchase up to 5,000 shares of common stock in open market or private transactions, at prices not to exceed the market value of the common stock at the time of such purchase.

The Company is authorized to issue 75,000 shares of Common Stock and 2,000 shares of Preferred Stock. The Board of Directors has authority under the Company’s Restated Certificate of Incorporation to issue shares of preferred stock with voting and other relative rights to be determined by the Board of Directors.

(6) Net (Loss) Income Per Common Share

Basic income per common share is based on the weighted average number of common shares outstanding during the period. Diluted income per common share includes the dilutive effect of potential common shares outstanding. The following table sets forth the reconciliation of weighted average shares outstanding and diluted weighted average shares outstanding:

	Nine Months Ended March 31,		**Three Months Ended March 31,**	
	2018	2017	2018	2017
Weighted average shares outstanding	35,162	31,453	35,304	34,769
Dilutive effect of stock options and restricted stock awards and units	-	339	-	352
Diluted weighted average shares outstanding	35,162	31,792	35,304	35,121

The effect of approximately 100 and 181 common equivalent shares for the three and nine months ended March 31, 2018, respectively, was excluded from the diluted weighted average shares outstanding due to a net loss for the periods. There were 170 and 143 common equivalent shares outstanding for the three and nine months ended March 31, 2018, respectively, that were not included in the calculation of diluted net income per common share because their effect would have been anti-dilutive.

The weighted average shares outstanding for the three and nine months ended March 31, 2018 includes the effect of 5,122 shares to be issued beginning on December 21, 2019 in connection with the acquisition of certain products and related assets from Citron and Lucid (see Note 3).

The Convertible Senior Notes (see Note 7) will only be included in the dilutive net income per share calculations using the treasury stock method during periods in which the average market price of Aceto's common stock is above the applicable conversion price of the Convertible Senior Notes, or $33.215 per share, and the impact would not be anti-dilutive.

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(7) Debt

Long-term debt

	March 31, 2018	**June 30, 2017**
Convertible Senior Notes, net	$ 126,279	$ 121,676
Revolving Bank Loans	62,000	90,000
Term Bank Loans	128,526	139,227
Mortgage	2,615	2,763
	319,420	353,666
Less current portion	190,723	14,466
	$ 128,697	$ 339,200

Convertible Senior Notes

In November 2015, Aceto offered $125,000 aggregate principal amount of Convertible Senior Notes due 2020 (the "Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. In addition, Aceto granted the initial purchasers for the offering an option to purchase up to an additional $18,750 aggregate principal amount pursuant to the initial purchasers' option to purchase additional Notes, which was exercised in November 2015. Therefore, the total offering was $143,750 aggregate principal amount. The Notes are unsecured obligations of Aceto and rank senior in right of payment to any of Aceto's subordinated indebtedness, equal in right of payment to all of Aceto's unsecured indebtedness that is not subordinated, effectively junior in right of payment to any of Aceto's secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally junior in right of payment to all indebtedness and other liabilities (including trade payables) of Aceto's subsidiaries. The Notes will be convertible into cash, shares of Aceto common stock or a combination thereof, at Aceto's election, upon the satisfaction of specified conditions and during certain periods. The Notes will mature in November 2020. The Notes pay 2.0% interest semi-annually in arrears on May 1 and November 1 of each year, which commenced on May 1, 2016. The Notes are convertible into 4,328 shares of common stock, based on an initial conversion price of $33.215 per share.

Holders may convert all or any portion of their notes, in multiples of one thousand dollar principal amount, at their option at any time prior to the close of business on the business day immediately preceding May 1, 2020 only under the following circumstances: (i) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day, (ii) during the five consecutive business day period after any five consecutive trading day period (which is referred to as the “measurement period”) in which the trading price per one thousand dollar principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of Aceto’s common stock and the conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events.

Upon conversion by the holders, the Company may elect to settle such conversion in shares of its common stock, cash, or a combination thereof. As a result of its cash conversion option, the Company separately accounted for the value of the embedded conversion option as a debt discount (with an offset to capital in excess of par value). The debt discount is being amortized as additional non-cash interest expense using the effective interest method over the term of the Notes. Debt issuance costs are being amortized as additional non-cash interest expense. The Company presents debt issuance costs as a direct deduction from the carrying value of the debt liability rather than showing the debt issuance costs as a deferred charge on the balance sheet.

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In connection with the offering of the Notes, Aceto entered into privately negotiated convertible note hedge transactions with option counterparties, which are affiliates of certain of the initial purchasers. The convertible note hedge transactions are expected generally to reduce the potential dilution to Aceto's common stock and/or offset any cash payments Aceto is required to make in excess of the principal amount of converted Notes upon any conversion of Notes. Aceto also entered into privately negotiated warrant transactions with the option counterparties. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of Aceto's common stock as measured over the applicable valuation period at the maturity of the warrants exceeds the applicable strike price of the warrants. By entering into these transactions with the option counterparties, the Company issued convertible debt and a freestanding "call-spread."

The carrying value of the Notes is as follows:

	March 31, 2018	**June 30, 2017**
Principal amount	$ 143,750	$ 143,750
Unamortized debt discount	(15,278)	(19,255)
Unamortized debt issuance costs	(2,193)	(2,819)
Net carrying value	$ 126,279	$ 121,676

The following table sets forth the components of total "interest expense" related to the Notes recognized in the accompanying consolidated statements of operations for the three and nine months ended March 31:

	Nine Months Ended March 31, 2018	**Three Months Ended March 31, 2018**
Contractual coupon	$ 2,127	$ 709
Amortization of debt discount	3,977	1,347
Amortization of debt issuance costs	626	208
	$ 6,730	$ 2,264

Credit Facilities

On December 21, 2016 the Company entered into a Second Amended and Restated Credit Agreement (the “A&R Credit Agreement”), with eleven banks, which amended and restated in its entirety the Amended and Restated Credit Agreement, dated as of October 28, 2015, as amended by Amendment No. 1 to Amended and Restated Credit Agreement, dated as of November 10, 2015, and Amendment No. 2 to Amended and Restated Credit Agreement, dated as of August 26, 2016 (collectively, the “First Amended Credit Agreement”). The A&R Credit Agreement increased the aggregate available revolving commitment under the First Amended Credit Agreement from $150,000 to an initial aggregate available revolving commitment of $225,000 (the “Initial Revolving Commitment”). Under the A&R Credit Agreement, the Company may borrow, repay and reborrow from and as of December 21, 2016, to but excluding December 21, 2021 (the “Maturity Date”) provided, that if any of the Notes remain outstanding on the date that is 91 days prior to the maturity date of the Notes (the “2015 Convertible Maturity Date”), then the Maturity Date shall mean the date that is 91 days prior to the 2015 Convertible Maturity Date. The A&R Credit Agreement provides for (i) Eurodollar Loans (as such terms are defined in the A&R Credit Agreement), (ii) ABR Loans (as such terms are defined in the A&R Credit Agreement) or (iii) a combination thereof. As of March 31, 2018, the Company borrowed Revolving Loans (as defined under the A&R Credit Agreement) aggregating $62,000 which loans are Eurodollar Loans at interest rates ranging from 3.57% to 3.63% at March 31, 2018. The applicable interest rate margin percentage is subject to adjustment quarterly based upon the Company’s senior secured net leverage ratio.

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Under the A&R Credit Agreement, the Company also borrowed $150,000 in term loans (the “Initial Term Loan). Subject to certain conditions, including obtaining commitments from existing or prospective lenders, the Company had the right to increase the amount of the Initial Revolving Commitment (each, a “Revolving Facility Increase” and, together with the Initial Revolving Commitment, the “Revolving Commitment”) and/or the Initial Term Loan in an aggregate amount not to exceed $100,000 pursuant to an incremental loan feature in the A&R Credit Agreement. As of March 31, 2018, the remaining amount outstanding under the Initial Term Loan was $131,250 and was payable as a Eurodollar Loan at an interest rate of 4.05%. The proceeds of the Initial Revolving Commitment and Initial Term Loan were used to partially finance the acquisition of generic products and related assets of Citron and its affiliate Lucid, and pay fees and expenses related thereto. The applicable interest rate margin percentage is subject to adjustment quarterly based upon the Company’s senior secured net leverage ratio.

The Initial Term Loan is payable as to principal in nineteen consecutive, equal quarterly installments of $3,750, which commenced on March 31, 2017 and will continue each March 31, June 30, September 30 and December 31 thereafter. To the extent not previously paid, the final payment on the Term Loan Maturity Date (as defined in the A&R Credit Agreement) shall be in an amount equal to the then outstanding unpaid principal amount of the Initial Term Loan.

The A&R Credit Agreement provides that commercial letters of credit shall be issued to provide the primary payment mechanism in connection with the purchase of any materials, goods or services in the ordinary course of business. The Company had no open letters of credit at March 31, 2018 and June 30, 2017.

In accordance with generally accepted accounting principles, deferred financing costs associated with the Initial Term Loan are presented as a direct deduction from the carrying value of the debt liability rather than showing the deferred financing costs as a deferred charge on the balance sheet. In addition, deferred financing costs associated with the Revolving Commitment have been recorded as a deferred charge on the balance sheet.

The A&R Credit Agreement provides for a security interest in substantially all the personal property of the Company and certain of its subsidiaries. The A&R Credit Agreement contains several financial covenants including, among other things, maintaining a minimum level of debt service and certain leverage ratios. Under the A&R Credit Agreement, the Company and its subsidiaries are also subject to certain restrictive covenants, including, among other things, covenants governing liens, limitations on indebtedness, limitations on guarantees, limitations on sales of assets and sales of receivables, and limitations on loans and investments.

On December 13, 2017, the Company entered into a First Amendment to the Second Amended and Restated Credit Agreement (the “2017 Amendment”), which amended the A&R Credit Agreement. The 2017 Amendment, among other things, contained several amendments to the financial covenants in the A&R Credit Agreement.

As of March 31, 2018, the Company was in compliance with all of its financial covenants except for the maximum total net leverage ratio and the minimum debt service coverage ratio. On May 3, 2018, the Company entered into a Second Amendment and Waiver to the Second Amended and Restated Credit Agreement (the “2018 Amendment”). The 2018 Amendment, among other things, contains a waiver of any event of default under the A&R Credit Agreement arising as a result of the non-compliance by the Company with the Total Net Leverage Ratio and Debt Service Coverage Ratio financial covenants, in each case, solely for the fiscal quarter ended March 31, 2018. The Amendment also contains several amendments to the A&R Credit Agreement including, among other things, (a) reducing the available revolving commitment thereunder to $100,000, and (b) during the period commencing on the closing of the 2018 Amendment and ending on the date the Company demonstrates compliance with each financial covenant set forth in the A&R Credit Agreement for the fiscal quarter ending June 30, 2018 (the “Limitation Period”; provided that if the Company is not in compliance with any of the financial covenants set forth in the A&R Credit Agreement for the fiscal quarter ending June 30, 2018, then the Limitation Period shall continue indefinitely): (i) fixing the applicable margin with respect to all loans under the A&R Credit Agreement to the highest level provided under the A&R Credit Agreement, which is 1.50% in the case of ABR Loans (as defined in the A&R Credit Agreement) and 2.50% in the case of Eurodollar Loans (as defined in the A&R Credit Agreement), (ii) fixing the commitment fee on the undrawn revolving commitments under the A&R Credit Agreement to the highest level provided under the A&R Credit Agreement which is 0.40% per annum, (iii) requiring the prior written consent of the Required Lenders (as defined in the A&R Credit Agreement) as a condition precedent to the lenders extending any Loans (as defined in the A&R Credit Agreement) or the issuing banks issuing, amending, renewing or extending any Letter of Credit (as defined in the A&R Credit Agreement), (iv) restricting the amount of dividends or distributions the Company may make to its shareholders to no more than $0.01 per share for the fiscal quarter ending on June 30, 2018 and, during the Limitation Period, restricting the Company from making any other dividends or distributions to its shareholders thereafter and (v) restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

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In accordance with GAAP, we have classified the indebtedness outstanding under the Company's credit facility as a current liability as of March 31, 2018. This differs from the customary treatment heretofore applicable to indebtedness outstanding under the Company's credit facility, in which only the portion of such indebtedness payable within one year from the balance sheet date has been recorded as a current liability. The waiver that the Company has received from its lenders under the credit facility applies solely to the non-compliance with certain financial covenants as of March 31, 2018 and thus does not waive non-compliance with any financial covenants as of June 30, 2018. It is probable that the Company will not comply with certain financial covenants as of June 30, 2018 in the absence of a material change in the Company's operating results. That probability is the factor that has caused the Company to reclassify its indebtedness. The Company believes it will work cooperatively with its lenders over the next 120 days and anticipates that the financial covenants for the June 30, 2018 reporting date will be amended.

Mortgage

On June 30, 2011, the Company entered into a mortgage payable for $3,947 on its corporate headquarters, in Port Washington, New York. This mortgage payable is secured by the land and building and is being amortized over a period of 20 years. The mortgage payable, which was modified in October 2013, bears interest at 4.92% per annum as of March 31, 2018 and matures on June 30, 2021.

(8) Commitments, Contingencies and Other Matters

The Company and its subsidiaries are subject to various claims which have arisen in the normal course of business. The Company provides for costs related to contingencies when a loss from such claims is probable and the amount is reasonably determinable. In determining whether it is possible to provide an estimate of loss, or range of possible loss, the Company reviews and evaluates its litigation and regulatory matters on a quarterly basis in light of potentially relevant factual and legal developments. If the Company determines an unfavorable outcome is not probable or reasonably estimable, the Company does not accrue for a potential litigation loss. While the Company has determined that there is a reasonable possibility that a loss has been incurred, no amounts have been recognized in the financial statements, other than what has been discussed below, because the amount of the liability cannot be reasonably estimated at this time.

In fiscal years 2011, 2009, 2008 and 2007, the Company received letters from the Pulvair Site Group, a group of potentially responsible parties (PRP Group) who are working with the State of Tennessee (the State) to remediate a contaminated property in Tennessee called the Pulvair site. The PRP Group has alleged that Aceto shipped hazardous substances to the site which were released into the environment. The State had begun administrative proceedings against the members of the PRP Group and Aceto with respect to the cleanup of the Pulvair site and the PRP Group has begun to undertake cleanup. The PRP Group is seeking a settlement of approximately $1,700 from the Company for its share to remediate the site contamination. Although the Company acknowledges that it shipped materials to the site for formulation over twenty years ago, the Company believes that the evidence does not show that the hazardous materials sent by Aceto to the site have significantly contributed to the contamination of the environment and thus believes that, at most, it is a de minimis contributor to the site contamination. Accordingly, the Company believes that the settlement offer is unreasonable. Management believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial condition or liquidity.

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The Company has environmental remediation obligations in connection with Arsynco, Inc. ("Arsynco"), a subsidiary formerly involved in manufacturing chemicals located in Carlstadt, New Jersey, which was closed in 1993 and is currently held for sale. Based on continued monitoring of the contamination at the site and the approved plan of remediation, Arsynco received an estimate from an environmental consultant stating that the costs of remediation could be between $21,500 and $23,300. Remediation commenced in fiscal 2010, and as of March 31, 2018 and June 30, 2017, a liability of $4,495 and $8,451, respectively, is included in the accompanying consolidated balance sheets for this matter. For the nine months ended March 31, 2018, the Company recorded an environmental charge of $902, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the nine months ended March 31, 2018. In accordance with GAAP, management believes that the majority of costs incurred to remediate the site will be capitalized in preparing the property which is currently classified as held for sale. An estimate of the fair value of the property has been determined by a third party real estate professional and supports the assumption that the expected fair value after the remediation is in excess of the amount required to be capitalized. However, these matters, if resolved in a manner different from those assumed in current estimates, could have a material adverse effect on the Company's financial condition, operating results and cash flows when resolved in a future reporting period.

In connection with the environmental remediation obligation for Arsynco, in July 2009, Arsynco entered into a settlement agreement with BASF Corporation ("BASF"), the former owners of the Arsynco property. In accordance with the settlement agreement, BASF paid for a portion of the prior remediation costs and going forward, will co-remediate the property with the Company. The contract requires that BASF pay $550 related to past response costs and pay a proportionate share of the future remediation costs. Accordingly, the Company had recorded a gain of $550 in fiscal 2009. This $550 gain relates to the partial reimbursement of costs of approximately $1,200 that the Company had previously expensed. The Company also recorded an additional receivable from BASF, with an offset against property held for sale, representing its estimated portion of the future remediation costs. The balance of this receivable for future remediation costs as of March 31, 2018 and June 30, 2017 is $2,023 and $3,803, respectively, which is included in the accompanying consolidated balance sheets.

In March 2006, Arsynco received notice from the EPA of its status as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for a site described as the Berry's Creek Study Area ("BCSA"). Arsynco is one of over 150 PRPs which have potential liability for the required investigation and remediation of the site. The estimate of the potential liability is not quantifiable for a number of reasons, including the difficulty in determining the extent of contamination and the length of time remediation may require. In addition, any estimate of liability must also consider the number of other PRPs and their financial strength. In July 2014, Arsynco received notice from the U.S. Department of Interior ("USDOI") regarding the USDOI's intent to perform a Natural Resource Damage (NRD) Assessment at the BCSA. Arsynco has to date declined to participate in the development and performance of the NRD assessment process. Based on prior practice in similar situations, it is possible that the State may assert a claim for natural resource damages with respect to the Arsynco site itself, and either the federal government or the State (or both) may assert claims against Arsynco for natural resource damages in connection with Berry's Creek; any such claim with respect to Berry's Creek could also be asserted against the approximately 150 PRPs which the EPA has identified in connection with that site. Any claim for natural resource damages with respect to the Arsynco site itself may also be asserted against BASF, the former owners of the Arsynco property. In September 2012, Arsynco entered into an agreement with three of the other PRPs that had previously been impleaded into New Jersey Department of Environmental Protection, et al. v. Occidental Chemical Corporation, et al., Docket No. ESX-L-9868-05 (the "NJDEP Litigation") and were considering impleading Arsynco into the same proceeding. Arsynco entered into an agreement to avoid impleader. Pursuant to the agreement, Arsynco agreed to (1) a tolling period that would not be included when computing the running of any statute of limitations that might provide a defense to the NJDEP Litigation; (2) the waiver of certain issue preclusion defenses in the NJDEP Litigation; and (3) arbitration of certain potential future liability allocation claims if the other parties to the agreement are barred by a court of competent jurisdiction from proceeding against Arsynco. In July 2015, Arsynco was contacted by an allocation consultant retained by a group of the named PRPs, inviting Arsynco to participate in the allocation among the PRPs' investigation and remediation costs relating to the BCSA. Arsynco declined that invitation. Since an amount of the liability cannot be reasonably estimated at this time, no accrual is recorded for these potential future costs. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not currently known.

A subsidiary of the Company markets certain agricultural protection products which are subject to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). FIFRA requires that test data be provided to the EPA to register, obtain and maintain approved labels for pesticide products. The EPA requires that follow-on registrants of these products compensate the initial registrant for the cost of producing the necessary test data on a basis prescribed in the FIFRA regulations. Follow-on registrants do not themselves generate or contract for the data. However, when FIFRA requirements mandate that new test data be generated to enable all registrants to continue marketing a pesticide product, often both the initial and follow-on registrants establish a task force to jointly undertake the testing effort. The Company is presently a member of several such task force groups, which requires payments for such memberships. In addition, in connection with our agricultural protection business, the Company plans to acquire product registrations and related data filed with the United States Environmental Protection Agency to support such registrations and other supporting data for several products. The acquisition of these product registrations and related data filed with the United States Environmental Protection Agency as well as payments to various task force groups could approximate $2,299 through the remainder of fiscal 2018.

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The Company has been notified by the U.S. government that 11 generic drug products it acquired through its Acetris Health subsidiary in a product purchase agreement with Lucid are not in compliance with the federal Trade Agreement Act (“TAA”) country-of-origin provisions of a clause contained in the government supply contracts acquired from Lucid (the “TAA Notification”). The 11 finished dosage form products purchased by the U.S. government are manufactured by Aurolife Pharma LLC which is located in Dayton, New Jersey using APIs sourced from India. In conjunction with this finding, the U.S. Department of Veterans Affairs (“VA”) requested that Aceto supply new TAA-compliant sources for the referenced products by March 9, 2018 and supply new TAA-compliant drugs to the government purchasers under the contracts by March 26, 2018. The Company was not able to meet these deadlines and thereafter Acetris and the government entered into agreements that provided for a no-cost termination of each of the 11 supply contracts.

Under current longstanding law, the government, under the Buy America Act, is permitted to buy domestic end products, including commercial off-the-shelf (“COTS”) products like generic drugs that are manufactured in the U.S. even if their components are not all manufactured in the US. The Company believes that the government was and is permitted to buy Acetris’ products, because they are COTS items manufactured in the U.S. As a result, the Company has disputed the determination that the 11 products sold pursuant to novated contracts with the VA originate in India rather than the United States and has appealed the decision that it is not currently compliant with contract sourcing requirements. To further pursue remedies, Aceto has asserted an indemnification claim against the sellers under the product purchase agreement dated December 21, 2016. In addition, the U.S. Defense Logistics Agency, by letter dated April 25, 2018 to Acetris, requested that Acetris seek a ruling from U.S. Customs and Border Protection that seven products specified therein, each of which have APIs sourced from India, are TAA compliant.

In March 2018, Sigmapharm Laboratories, LLC (“SigmaPharm”) commenced an action against Rising and the Company in the United States District Court for the Eastern District of Pennsylvania. The complaint arises out of an agreement, effective as of June 22, 2006 (the “SigmaPharm Agreement”), pursuant to which SigmaPharm agreed to supply certain generic pharmaceutical products (the “Products”) to Rising, and Rising in turn agreed to market and distribute the Products in the United States and pay SigmaPharm a share of the profits pursuant to a formula specified in the Agreement. The complaint alleges that Rising and Aceto breached the Agreement by failing to pay or timely make payments due under the Agreement and to disclose certain information to SigmaPharm. The complaint seeks, among other relief, a declaration that the Agreement has been terminated and that SigmaPharm has exclusive marketing and distribution rights to the Products; injunctive relief; and an unspecified amount of damages. The Company intends to vigorously defend the action and assert counterclaims against SigmaPharm in the course of this litigation.

(9) Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. GAAP establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company’s assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable; and

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Level 3 – Unobservable inputs that are not corroborated by market data.

On a recurring basis, Aceto measures at fair value certain financial assets and liabilities, which consist of cash equivalents, investments and foreign currency contracts. The Company classifies cash equivalents and investments within Level 1 if quoted prices are available in active markets. Level 1 assets include instruments valued based on quoted market prices in active markets which generally include corporate equity securities publicly traded on major exchanges. Time deposits are very short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value, and are classified within Level 2 of the valuation hierarchy. The Company uses foreign currency futures contracts to minimize the risk caused by foreign currency fluctuation on its foreign currency receivables and payables by purchasing futures with one of its financial institutions. Futures are traded on regulated U.S. and international exchanges and represent commitments to purchase or sell a foreign currency at a future date and at a specific price. Aceto's foreign currency derivative contracts are classified within Level 2 as the fair value of these hedges is primarily based on observable futures foreign exchange rates. At March 31, 2018, the Company had foreign currency contracts outstanding that had a notional amount of $62,350. Unrealized (losses) gains on hedging activities for the three and nine months ended March 31, 2018 was ($34) and $227, respectively. Unrealized gains (losses) on hedging activities for the three and nine months ended March 31, 2017 was $353 and ($230), respectively, and are included in interest and other income, net, in the consolidated statements of operations. The contracts have varying maturities of less than one year.

In conjunction with its existing credit agreement (see Note 7), the Company entered an interest rate swap on March 21, 2017 for an additional interest cost of 2.005% on a notional amount of $100,000, which has been designated as a cash flow hedge. The expiration date of this interest rate swap is December 21, 2021. The remaining notional balance of this derivative as of March 31, 2018 is $87,500. The unrealized gain to date associated with this derivative, which is recorded in accumulated other comprehensive income in the consolidated balance sheet at March 31, 2018, is $1,539. Aceto's interest rate swaps are classified within Level 2 as the fair value of this hedge is primarily based on observable interest rates.

At March 31, 2018, the Company had accrued $752 of contingent consideration, $663 of which related to the acquisition of certain products and related assets of Citron and Lucid, which was completed in December 2016 (see Note 3) and $89 of contingent consideration related to a previously acquired company in France. At June 30, 2017, the Company had accrued $2,952 of contingent consideration, $2,807 of which related to the acquisition of certain products and related assets of Citron and Lucid and $145 of contingent consideration related to a previously acquired company in France. The contingent consideration was calculated using the present value of a probability weighted income approach.

The Company accounts for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”). ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. During the third quarter of fiscal 2018, the Company’s Rising Pharmaceuticals reporting unit (which is part of the Human Health segment) had a decline in actual and forecasted revenue and earnings due to the persistent adverse conditions in the generics market. In addition, as noted above, the Company was notified by the U.S. government that 11 generic drug products it acquired through its Acetris Health subsidiary (part of the Rising reporting unit which is part of the Human Health segment) in a product purchase agreement with an entity formerly known as Lucid Pharma LLC are not in compliance with the federal Trade Agreement Act country-of-origin provisions of a clause contained in the government supply contracts acquired from Lucid. Based on these indicators, the Company determined that it was necessary to perform an interim goodwill impairment analysis at March 31, 2018 for its Rising reporting unit. The Company elected to early adopt Accounting Standards Update (“ASU”) 2017-04, *Intangibles- Goodwill and Other (Topic 350),* during the third quarter of fiscal 2018 which eliminated the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, the amount of an impairment charge is recognized if the carrying amount of a reporting unit is greater than its fair value. The fair value of the Rising reporting unit was estimated using many assumptions and estimates and a market participant approach that directly impacts the results of the testing. In making these assumptions and estimates, the Company used industry accepted valuation models and set criteria that were reviewed and approved by various levels of management. Accordingly, with respect to the third quarter of fiscal 2018, the Company recognized a pre-tax non-cash goodwill impairment charge of $235,110 related to the Rising reporting unit.

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Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are Level 3 inputs. As noted above, during the third quarter of fiscal 2018, the Company's Rising Pharmaceuticals subsidiary had a decline in actual and forecasted revenue and earnings and therefore the Company performed an impairment test on the related intangibles. The projected undiscounted cash flows for certain intangibles were determined to be less than the carrying value, and as a result, the Company recognized an impairment charge of $5,745 in the third quarter of fiscal 2018. Additionally, as noted above, the Company was notified by the U.S. government that 11 generic drug products it acquired through its Acetris Health subsidiary in a product purchase agreement with an entity formerly known as Lucid Pharma LLC are not in compliance with the federal Trade Agreement Act country-of-origin provisions of a clause contained in the government supply contracts acquired from Lucid. Based on this, the Company performed an impairment test on the related intangible asset and recognized an impairment charge of $15,411 on the customer relationships intangible asset in the third quarter of fiscal 2018.

The total impairment charges for goodwill and intangibles recorded in the third quarter of fiscal 2018 was $256,266, all of which related to the Rising reporting unit which is part of the Human Health segment.

In connection with the acquisition of certain products and related assets of Citron and Lucid (see Note 3), the Company will issue 5,122 shares of Aceto common stock beginning on December 21, 2019. The preliminary fair value of the future issuance of these shares was determined to be $90,400 at the time of the product acquisition after taking into effect that the shares won't be issued until the third and fourth anniversary of the closing and the present value calculation of dividends.

In November 2015, the Company issued $143,750 aggregate principal amount of Notes (see Note 7). Since Aceto has the option to settle the potential conversion of the Notes in cash, the Company separated the embedded conversion option feature from the debt feature and accounts for each component separately, based on the fair value of the debt component assuming no conversion option. The calculation of the fair value of the debt component required the use of Level 3 inputs, and was determined by calculating the fair value of similar non-convertible debt, using a theoretical borrowing rate of 6.5%. The value of the embedded conversion option was determined using an expected present value technique (income approach) to estimate the fair value of similar non-convertible debt and included utilization of convertible investors' credit assumptions and high yield bond indices. The Notes approximate a full fair value of

$126,600 at March 31, 2018 giving effect to certain factors, including the term of the Notes, current stock price of Aceto stock and effective interest rate.

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 values of the Company’s notes receivable and short-term and long-term bank loans were based upon current rates offered for similar financial instruments to the Company.

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The following tables summarize the valuation of the Company's financial assets and liabilities which were determined by using the following inputs at March 31, 2018 and June 30, 2017:

	Fair Value Measurements at March 31, 2018 Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents:				
Time deposits	-	$ 2,746	-	$ 2,746
Investments:				
Time deposits	-	3,059	-	3,059
Foreign currency contracts-assets (1)	-	285	-	285
Foreign currency contracts-liabilities (2)	-	318	-	318
Derivative asset for interest rate swap (3)	-	1,539	-	1,539
Contingent consideration (4)	-	-	$ 752	752

(1) Included in "Other receivables" in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2018.
(2) Included in "Accrued expenses" in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2018.
(3) Included in "Other assets" in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2018.
(4) $89 included in "Accrued expenses" and $663 included in "Long-term liabilities" in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2018.

	Fair Value Measurements at June 30, 2017 Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents:				
Time deposits	-	$ 5,781	-	$ 5,781

Investments:				
Time deposits	-	2,046	-	2,046
Foreign currency contracts-assets (5)	-	486	-	486
Foreign currency contracts-liabilities (6)	-	137	-	137
Derivative liability for interest rate swap (7)	-	581	-	581
Contingent consideration (8)	-	-	$ 2,952	2,952

(5) Included in “Other receivables” in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2017.
(6) Included in “Accrued expenses” in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2017.
(7) Included in “Long-term liabilities” in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2017.
(8) $145 included in “Accrued expenses” and $2,807 included in “Long-term liabilities” in the accompanying Condensed Consolidated Balance Sheet as of June 30, 2017.

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(10) Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* which gives entities the option to reclassify the disproportionate income tax effects ("stranded tax effects") caused by the newly-enacted U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The update also requires new disclosures, some of which are applicable for all entities. The guidance in ASU 2018-02 is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the provisions of ASU 2018-02.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* which has the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition to that main objective, the amendments in ASU 2017-12 make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments in ASU 2017-12 are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the provisions of ASU 2017-12.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting,* which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01 *Business Combinations (Topic 805): Clarifying the Definition of a Business,* with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company does not believe this new accounting pronouncement will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* which addresses eight specific cash flow issues with the objective of reducing diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of the provisions of ASU 2016-15.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changes certain aspects of accounting for share-based payments to employees. The Company adopted ASU 2016-09 as of July 1, 2017. ASU 2016-09 requires that all tax benefits and deficiencies related to share-based payments be recognized and recorded through the statement of income for all awards settled or expiring after the adoption of ASU 2016-09. Under prior guidance, tax benefits in excess of compensation costs ("windfalls") were recorded in equity, and any tax deficiencies ("shortfalls") were recorded in equity to the extent of previous windfalls and then to the statement of income. For the three months and nine months ended March 31, 2018, the Company recorded additional tax expense of $420 and $1,521, respectively, associated with net tax deficiencies. ASU 2016-09 also requires, either prospectively or retrospectively, that all tax-related cash flows resulting from share-based payments be reported as operating activities on the statement of cash flows, a change from prior guidance that required windfall tax benefits to be presented as an inflow from financing activities and an outflow from operating activities on the statement of cash flows. The Company has elected to adopt such presentation on a prospective basis. Additionally, ASU 2016-09 allows entities to make an accounting policy election for the impact of most types of forfeitures on the recognition of expense for share-based payment awards by allowing the forfeitures to be either estimated, as was required under prior guidance, or recognized when they actually occur. Under ASU 2016-09, the Company recognizes forfeitures when they occur.

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2018. The Company is currently evaluating the impact of the provisions of ASU 2016-02.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Assets.* This ASU is intended to simplify the presentation of deferred taxes on the balance sheet and requires an entity to present all deferred tax assets and deferred tax liabilities as non-current on the balance sheet. Under the prior guidance, entities were required to separately present deferred taxes as current or non-current. Netting deferred tax assets and deferred tax liabilities by tax jurisdiction will still be required under the new guidance. The Company prospectively adopted the provisions of ASU 2015-17, as of July 1, 2017. The Company's prospective adoption of ASU 2015-17 impacts the classification of deferred tax assets and liabilities on any balance sheet that reports the Company's financial position for any date after June 30, 2017. Balance sheets for prior periods have not been adjusted. The adoption of ASU 2015-17 has no impact on the Company's results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*: *Simplifying the Measurement of Inventory.* This ASU requires that an entity measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted this standard in the first quarter of fiscal year 2018. The adoption of this standard did not have any impact on the condensed consolidated financial statements of the Company.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers - Deferral of the Effective Date*, which approved a one-year deferral of ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016 and April 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, and ASU 2016-10, *Revenue from Contracts with*

Customers - Identifying Performance Obligations and Licensing, respectively, which further clarify the guidance related to those specific topics within ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients*, to reduce the risk of diversity in practice for certain aspects in ASU 2014-09, including collectibility, noncash consideration, presentation of sales tax and transition. Additionally, in December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. ASU 2016-20 makes minor corrections or minor improvements to the standard that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Company has made progress in its evaluation of the amended guidance, including identification of revenue streams. The Company recognizes revenue from product sales at the time of shipment and passage of title and risk of loss and control of the goods is transferred to the customer. The Company has no acceptance or other post-shipment obligations and does not offer product warranties or services to its customers. Although the Company is continuing to assess the impact of the amended guidance, Aceto generally anticipates that the timing of recognition of revenue will be substantially unchanged under the amended guidance. The amended guidance will be effective for Aceto in the first quarter of fiscal 2019 and permits adoption under either the full retrospective approach (recognize effects of the amended guidance in each prior reporting period presented) or the modified retrospective approach (recognize the cumulative effect of adoption as an adjustment to retained earnings at the date of initial application). The Company anticipates adopting this amended standard on a modified retrospective basis.

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(11) Segment Information

The Company's business is organized along product lines into three principal segments: Human Health, Pharmaceutical Ingredients and Performance Chemicals.

Human Health - includes finished dosage form generic drugs and nutraceutical products.

Pharmaceutical Ingredients – includes pharmaceutical intermediates and active pharmaceutical ingredients (“APIs”).

Performance Chemicals - The Performance Chemicals segment is made up of two product groups: Specialty Chemicals and Agricultural Protection Products. Specialty Chemicals include a variety of chemicals used in the manufacture of plastics, surface coatings, cosmetics and personal care, textiles, fuels and lubricants, perform to their designed capabilities. Dye and pigment intermediates are used in the color-producing industries such as textiles, inks, paper, and coatings. Organic intermediates are used in the production of agrochemicals.

Agricultural Protection Products include herbicides, fungicides and insecticides that control weed growth as well as control the spread of insects and other microorganisms that can severely damage plant growth.

The Company's chief operating decision maker evaluates performance of the segments based on net sales, gross profit and income before income taxes. Unallocated corporate amounts are deemed by the Company as administrative, oversight costs, not managed by the segment managers. The Company does not allocate assets by segment because the chief operating decision maker does not review the assets by segment to assess the segments' performance, as the assets are managed on an entity-wide basis. During all periods presented, our chief operating decision maker has been the Chief Executive Officer of the Company. In accordance with GAAP, the Company has aggregated certain operating segments into reportable segments because they have similar economic characteristics, and the operating segments are similar in all of the following areas: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) the nature of the regulatory environment.

Nine months Ended March 31, 2018 and 2017:

	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Unallocated Corporate	Consolidated Totals
2018					
Net sales	$301,407	$ 113,406	$ 127,669	$ -	$ 542,482
Gross profit	57,080	17,259	27,310	-	101,649
(Loss) income before income taxes	(258,172)*	5,795	14,121	(23,142)	(261,398)
2017					
Net sales	$201,686	$ 121,253	$ 120,759	$ -	$ 443,698
Gross profit	56,424	19,867	27,672	-	103,963
Income (loss) before income taxes	13,912	7,299	13,599	(20,452)	14,358

* Includes goodwill impairment charge of $235,110. See Note 9 Fair Value Measurements for details.

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Three months Ended March 31, 2018 and 2017:

	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Unallocated Corporate	Consolidated Totals
2018					
Net sales	$91,926	$ 43,201	$ 50,871	$ -	$ 185,998
Gross profit	9,535	7,038	11,123	-	27,696
(Loss) income before income taxes	(265,486)*	2,987	6,699	(7,237)	(263,037)
2017					
Net sales	$99,816	$ 43,821	$ 46,491	$ -	$ 190,128
Gross profit	25,300	7,255	9,764	-	42,319
Income (loss) before income taxes	5,007	3,036	5,034	(4,565)	8,512

* Includes goodwill impairment charge of $235,110. See Note 9 Fair Value Measurements for details.

(12) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“the TCJA”) was signed by the U.S. President, which enacted various changes to the U.S. corporate tax law. Some of the most significant provisions impacting corporations include a reduced U.S. corporate income tax rate from 35% to 21% effective in 2018, a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions, limitation on deductibility of interest, the transition of U.S. international taxation from a worldwide tax system to a territorial tax system and other provisions. U.S. GAAP accounting for income taxes requires that Aceto record the impacts of any tax law change on the Company’s deferred income taxes in the quarter that the tax law change is enacted. Due to the complexities involved in accounting for the enactment of the TCJA, SEC Staff Accounting Bulletin (“SAB”) 118 allows Aceto to provide a provisional estimate of the impacts of the TCJA in its earnings for the fiscal year ended June 30, 2018. Accordingly, based on currently available information, the Company recorded additional income tax expense of $12,720 for the nine months ended March 31, 2018. This charge is comprised of $3,342 related to the remeasurement of Aceto’s deferred tax assets arising from a lower U.S. corporate tax rate, $7,012 related to the deemed repatriation of unremitted earnings of foreign subsidiaries and $2,366 related to deferred tax liabilities for local tax authorities as the Company no longer asserts permanent reinvestment of its undistributed non-U.S. subsidiaries' earnings. Additional impacts from the enactment of the TCJA will be recorded as they are identified during the measurement period ending no later than December 22, 2018 as provided for in SAB 118. The charge recorded in the nine months ended March 31, 2018 represents the Company’s best estimate of the impact of the TCJA. The Company will continue to evaluate the interpretations and assumptions made, guidance that may be issued and actions the Company may take as a result of the TCJA, which could materially change this estimate in 2018 as new information becomes available.

Deferred tax assets are recorded for net operating losses and temporary differences between the book and tax basis of assets and liabilities expected to produce tax deductions in future periods. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the tax periods in which those deferred tax assets would be deductible. A valuation allowance is taken when necessary to reduce deferred tax assets to the amount expected to be realized. When determining the amount of net deferred tax assets that are more likely than not to be realized, the Company assesses all available positive and negative evidence. This evidence includes, but is not limited to, scheduled reversal of deferred tax liabilities, prior earnings history, projected future earnings, carry-back and carry-forward periods and the feasibility of ongoing tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset. The weight given to the positive and negative evidence is commensurate with the extent the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income (exclusive of reversing taxable temporary differences and carryforwards) to outweigh objective negative evidence such as the Company’s recent financial reporting loss for the three and nine months ended March 31, 2018 that created a cumulative loss. Therefore, the Company recorded a valuation allowance of $71,350 against its net U.S. deferred tax assets during the three and nine months ended March 31, 2018.

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(13) Subsequent Events

On April 18, 2018, the Company issued a press release announcing, among other things, that (i) it was negotiating with its bank lenders a waiver of its credit agreement with respect to its total net leverage and debt service coverage financial covenants in the fiscal third quarter, (ii) the financial guidance issued on February 1, 2018 should no longer be relied upon, (iii) the Company anticipated recording substantial non-cash intangible asset impairment charges as described herein and (iv) the resignation of Edward Borkowski as its chief financial officer. Subsequently, the market price of the Company's common stock declined significantly and several law firms publicly announced that they were investigating alleged violations of law associated with the matters described in the Company's press release. Thereafter, Aceto and certain related individuals have been named as defendants in civil lawsuits that allege, among other things, that Aceto made false and misleading statements to investors in public filings that preceded the April 18, 2018 press release. The Company is currently preparing its responses to these legal proceedings.

In connection with the Department of Justice's ongoing investigation into marketing and pricing practices throughout the generic pharmaceutical industry, the Company has received a subpoena from the Antitrust Division of the U.S. Department of Justice (the "DOJ"). The Company is one of many operating companies in the generic pharmaceutical industry to receive a subpoena from the DOJ relating to its years-long investigation into the industry. The Company is currently preparing its response to the subpoena.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Aceto Corporation

Port Washington, NY

Results of Review of Interim Consolidated Financial Statements

We have reviewed the condensed consolidated balance sheet of Aceto Corporation and subsidiaries as of March 31, 2018 and related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended March 31, 2018 and 2017, and cash flows for the nine-month periods ended March 31, 2018 and 2017 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended March 31, 2018. Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Aceto Corporation and subsidiaries as of June 30, 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated August 25, 2017, except for Note 2 which is dated November 9, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

Emphasis of Matter

As discussed in Note 2 to the condensed consolidated financial statements, the March 31, 2018 consolidated financial statements have been restated to correct a misstatement.

/s/ BDO USA, LLP

Melville, New York

May 4, 2018, except for Notes 2 and 12 which are October 12, 2018

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to our business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, financing plans, projected or anticipated benefits from acquisitions that we may make, or projections involving anticipated revenues, earnings or other aspects of our operating results or financial position, and the outcome of any contingencies. Any such forward-looking statements are based on current expectations, estimates and projections of management. We intend for these forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements. Words such as “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “plan,” “ “estimate,” and “continue,” and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that could cause actual results to differ materially from those set forth or implied by any forward-looking statement include, but are not limited to, our ability to remain competitive with competitors, risks associated with the generic product industry, dependence on a limited number of suppliers, risks associated with healthcare reform and reductions in reimbursement rates, difficulty in predicting revenue stream and gross profit, industry and market changes, the effect of fluctuations in operating results on the trading price of our common stock, risks associated with holding a significant amount of debt, inventory levels, reliance on outside manufacturers, risks of incurring uninsured environmental and other industry specific liabilities, governmental approvals and regulations, risks associated with hazardous materials, potential violations of government regulations, product liability claims, reliance on Chinese suppliers, potential changes to Chinese laws and regulations, potential changes to laws governing our relationships in India, fluctuations in foreign currency exchange rates, tax assessments, changes in tax rules, global economic risks, risk of unsuccessful acquisitions, effect of acquisitions on earnings, indemnification liabilities, terrorist activities, reliance on key executives, litigation risks, volatility of the market price of our common stock, changes to estimates, judgments and assumptions used in preparing financial statements, failure to maintain effective internal controls, and compliance with changing regulations, as well as other risks and uncertainties discussed in our reports filed with the Securities and Exchange Commission, including, but not limited to this Quarterly Report on Form 10-Q, the Company’s Annual Report on Form 10-K for the year ended June 30, 2017, as amended (the “2017 10-K”) and other filings. Copies of these filings are available at www.sec.gov.

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

NOTE REGARDING DOLLAR AMOUNTS

In this quarterly report, all dollar amounts are expressed in thousands, except for per-share amounts.

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

Executive Summary

We are reporting net sales of $542,482 for the nine months ended March 31, 2018, which represents a 22.3% increase from the $443,698 reported in the comparable prior period. Gross profit for the nine months ended March 31, 2018 was $101,649 and our gross margin was 18.7% as compared to gross profit of $103,963 and gross margin of 23.4% in the comparable prior period. Our selling, general and administrative costs (“SG&A”) for the nine months ended March 31, 2018 was $87,241, an increase of $11,627 from what we reported in the prior period. On April 18, 2018, the Company issued a press release announcing that we intended to record substantial impairment charges, including goodwill, due to the persistent adverse conditions in the generics market. As set forth in Note 9 to the Company’s Condensed Consolidated Financial Statements, we recorded impairment charges of $256,266 during the three months ended March 31, 2018. In addition, as disclosed in Notes 2 and 12, we recorded a valuation allowance of $71,350 against our U.S. net deferred tax assets during the three and nine months ended March 31, 2018. We had a net loss of $281,395 or $8.00 per diluted share, for the nine months ended March 31, 2018, compared to net income of $9,409, or $0.30 per diluted share, in the prior period.

The Company is incurring substantial expenses to address the issues that led to the impairment charges taken as of March 31, 2018. As announced by the Company in its April 18, 2019 press release, the Company will pay a flat monthly fee of $250 for the services of its interim chief financial officer, Rebecca Roof. The Company has also retained financial and legal advisors to assist it in dealing with the various challenges that the Company is currently facing.

Included in the Company’s press release issued April 18, 2018, is the announcement that the Board of Directors has initiated a process to identify and evaluate a range of strategic alternatives. Strategic alternatives to be considered may include the sale of a key business segment(s), a merger or other business combination with another party, continuing as a standalone entity or other potential alternatives. The Company has retained a financial advisor to assist with the evaluation of these strategic alternatives. There can be no assurance that the strategic review process will result in any transaction.

As more fully described in the notes to our condensed consolidated financial statements, on December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“TCJA”) was signed by the U.S. President. The TCJA significantly changes the income tax environment for U.S. multinational corporations and as such, the Company recorded additional income tax expense of $12,720 during the nine months ended March 31, 2018.

Despite the difficult generic pharmaceutical industry environment, our financial position as of March 31, 2018 remains strong, as we had cash and cash equivalents and short-term investments of $65,091 and working capital of $52,446.

Our business is separated into three principal segments: Human Health, Pharmaceutical Ingredients and Performance Chemicals.

Products that fall within the Human Health segment include finished dosage form generic drugs and nutraceutical products. Aceto sells generic prescription products and over-the-counter pharmaceutical products to leading wholesalers, chain drug stores, distributors and mass merchandisers. As previously mentioned, given continued headwinds in the generics market, the Company recorded a goodwill impairment charge of $235,110 in the Rising business segment in the third quarter of fiscal 2018.

On December 21, 2016, Rising completed the acquisition of certain generic products and related assets of entities formerly known as Citron Pharma LLC (“Citron”) and its affiliate Lucid Pharma LLC (“Lucid”). Rising formed two subsidiaries to consummate the product acquisition – Rising Health, LLC (which acquired certain products and related assets of Citron) and Acetris Health, LLC (which acquired certain products and related assets of Lucid). Citron was a privately-held New Jersey-based pharmaceutical company focused on developing and marketing generic pharmaceutical products in partnership with leading generic pharmaceutical manufacturers based in India and the U.S. Lucid was a privately-held New Jersey-based generic pharmaceutical distributor specializing in providing cost-effective products to various agencies of the U.S. Federal Government including the Veterans Administration and the Defense Logistics Agency. Lucid serviced 18 national contracts with the Federal Government, nearly all of which had 5-year terms. In February 2018, Aceto was notified by the U.S. government that 11 generic drug products are not in compliance with the federal Trade Agreement Act (“TAA”) country-of-origin provisions of a clause contained in the government supply contracts. See Note 8 to the Company’s Condensed Consolidated Financial Statements. The 11 finished dosage form products purchased by the U.S. government are manufactured by Aurolife Pharma LLC which is located in Dayton, New Jersey using APIs sourced from India. Based on this notification, the Company recorded an impairment charge of $15,411 on the customer relationships intangible asset in the third quarter of fiscal 2018.

The assets acquired in the product purchase transaction expanded, complemented, and strengthened our existing and future product offerings. In what has become a competitive generic drug business environment, one key for long-term success is having an ever-growing commercial portfolio of generic products, a strong internal drug development pipeline and capable, reliable manufacturing partners. This transaction added significantly to the Rising business platform in all three crucial areas. We believe that, consistent with our strategy of expanding our portfolio of finished dosage form generic products through product development partnerships and acquisitions of late stage assets, abbreviated new drug applications ("ANDAs") and complementary generic drug businesses, this product acquisition significantly expanded our roster of commercialized products and pipeline of products under development.

Based on a report issued by IQVIA Institute on April 19, 2018, "Spending on medicines grew by 0.6% in 2017 after off-invoice discounts and rebates. This spending includes all types of medicines, including institutional use for inpatients and outpatients. Focusing only on retail and mail-order pharmacy distribution, net spending declined by 2.1%."

Aceto supplies the raw materials used in the production of nutritional and packaged dietary supplements, including vitamins, amino acids, iron compounds and biochemicals used in pharmaceutical and nutritional preparations.

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

We supply APIs to many of the major generic drug companies, who we believe view Aceto as a valued partner in their effort to develop and market generic drugs. The process of introducing a new API from pipeline to market spans a number of years and begins with Aceto partnering with a generic pharmaceutical manufacturer and jointly selecting an API, several years before the expiration of a composition of matter patent, for future genericizing. We then identify the appropriate supplier, and concurrently utilizing our global technical network, work to ensure they meet standards of quality to comply with regulations. Our client, the generic pharmaceutical company, will submit the ANDA for U.S. Food and Drug Administration ("FDA") approval or European-equivalent approval. The introduction of the API to market occurs after all the development testing has been completed and the ANDA or European-equivalent is approved and the patent expires or is deemed invalid. Aceto, at all times, has a pipeline of APIs at various stages of development both in the United States and Europe. Additionally, as the pressure to lower the overall cost of healthcare increases, Aceto has focused on, and works very closely with our customers to develop new API opportunities to provide alternative, more economical, second-source options for existing generic drugs. By leveraging our worldwide sourcing, regulatory and quality assurance capabilities, we provide to generic drug manufacturers an alternative, economical source for existing API products.

Aceto has long been a supplier of pharmaceutical intermediates, the complex chemical compounds that are the building blocks used in producing APIs. These are the critical components of all drugs, whether they are already on the market or currently undergoing clinical trials. Faced with significant economic pressures as well as ever-increasing regulatory barriers, the innovative drug companies look to Aceto as a source for high quality intermediates.

Aceto employs, on occasion, the same second source strategy for our pharmaceutical intermediates business that we use in our API business. Historically, pharmaceutical manufacturers have had one source for the intermediates needed to produce their products. Utilizing our global sourcing, regulatory support and quality assurance network, Aceto works with the large, global pharmaceutical companies, sourcing lower cost, quality pharmaceutical intermediates that will meet the same high level standards that their current commercial products adhere to.

The Performance Chemicals segment includes specialty chemicals and agricultural protection products.

Aceto is a major supplier to many different industrial segments providing chemicals used in the manufacture of plastics, surface coatings, cosmetics and personal care, textiles, fuels and lubricants. The paint and coatings industry produces products that bring color, texture, and protection to houses, furniture, packaging, paper, and durable goods. Many of today's coatings are eco-friendly, by allowing inks and coatings to be cured by ultraviolet light instead of solvents, or allowing power coatings to be cured without solvents. These growing technologies are critical in protecting and enhancing the world's ecology and Aceto is focused on supplying the specialty additives that make modern coating techniques possible.

The chemistry that makes much of the modern world possible is often done by building up simple molecules to sophisticated compounds in step-by-step chemical processes. The products that are incorporated in each step are known as intermediates and they can be as varied as the end uses they serve, such as crop protection products, dyes and pigments, textiles, fuel additives, electronics - essentially all things chemical.

Aceto provides various specialty chemicals for the food, flavor, fragrance, paper and film industries. Aceto’s raw materials are also used in sophisticated technology products, such as high-end electronic parts used for photo tooling, circuit boards, production of computer chips, and in the production of many of today's modern gadgets.

According to an April 17, 2018 Federal Reserve Statistical Release, in the first quarter of calendar year 2018, the index for consumer durables, which impacts the Specialty Chemicals business of the Performance Chemicals segment, is expected to increase at an annual rate of 7.8%.

Aceto’s agricultural protection products include herbicides, fungicides and insecticides, which control weed growth as well as the spread of insects and microorganisms that can severely damage plant growth. One of Aceto's most widely used agricultural protection products is a sprout inhibitor that extends the storage life of potatoes. Utilizing our global sourcing and regulatory capabilities, we identify and qualify manufacturers either producing the product or with knowledge of the chemistry necessary to produce the product, and then file an application with the U.S. EPA for a product registration. Aceto has an ongoing working relationship with manufacturers in China and India to determine which of the non-patented or generic, agricultural protection products they produce can be effectively marketed in the Western world. We have successfully brought numerous products to market. We have a strong pipeline, which includes future additions to our product portfolio. The combination of our global sourcing and regulatory capabilities makes the generic agricultural market a niche for us and we will continue to offer new product additions in this market. In the National Agricultural Statistics Services release dated June 30, 2017, the total crop acreage planted in the United States in 2017 decreased by .3% to 318 million acres from 319 million acres in 2016. The number of peanut acres planted in 2017 increased 8.8% from 2016 levels while sugarcane acreage harvested decreased 3.4% from 2016. In addition, the potato acreage harvested in 2017 increased approximately .7% from the 2016 level.

We believe our main business strengths are sourcing, regulatory support, quality assurance, marketing and distribution. We distribute more than 1,100 chemical compounds used principally as finished products or raw materials in the pharmaceutical, nutraceutical, agricultural, coatings and industrial chemical industries. With business operations in ten countries, we believe that our global reach is distinctive in the industry, enabling us to source and supply quality products on a worldwide basis. Leveraging local professionals, we source approximately two-thirds of our products from Asia, buying from approximately 500 companies in China and 200 in India.

In this MD&A, we explain our general financial condition and results of operations, including, among other things, the following:

- factors that affect our business
- our earnings and costs in the periods presented
- changes in earnings and costs between periods
- sources of earnings
- the impact of these factors on our overall financial condition

As you read this MD&A section, refer to the accompanying condensed consolidated statements of operations, which present the results of our operations for the three and nine months ended March 31, 2018 and 2017. We analyze and explain the differences between periods in the specific line items of the condensed consolidated statements of operations.

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Critical Accounting Estimates and Policies

As disclosed in our 2017 10-K, the discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. In preparing these financial statements, we were required to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We regularly evaluate our estimates including those related to allowances for bad debts, revenue recognition, partnered products, inventories, goodwill and indefinite-life intangible assets, long-lived assets, environmental and other contingencies, income taxes, stock-based compensation and purchase price allocation. We base our estimates on various factors, including historical experience, advice from outside subject-matter experts, and various assumptions that we believe to be reasonable under the circumstances, which together form the basis for our making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Since June 30, 2017, there have been no significant changes to the assumptions and estimates related to those critical accounting estimates and policies. We are planning to implement a new enterprise resource planning ("ERP") system at our Rising subsidiary during the fourth quarter of our current fiscal year. In automating processes that heretofore have been undertaken manually, we may be required to reassess certain of our estimates, especially with respect to our rebates, returns and chargebacks approaches.

RESULTS OF OPERATIONS

Nine Months Ended March 31, 2018 Compared to Nine Months Ended March 31, 2017

Net Sales by Segment

	Nine months ended March 31,				**Comparison 2018 Over/(Under) 2017**	
	2018		**2017**			
Segment	**Net sales**	**% of Total**	**Net sales**	**% of Total**	**$ Change**	**% Change**