

(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 No

Indicate by check mark whether the registrant has submitted electronically, every interactive data file required to be submitted 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 such files).

Yes 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>

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

The registrant had 30,765,639 shares of common stock outstanding as of November 5, 2018.

ACETO CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2018

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ACETO CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except per-share amounts)

	September 30,	June 30,
	2018	2018
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,547	\$ 100,874
Investments	955	3,030
Trade receivables, less allowance for doubtful accounts (September 30, 2018, \$979; June 30, 2018, \$987)	292,378	247,246
Other receivables	8,810	9,664
Inventory	156,527	137,076
Prepaid expenses and other current assets	6,383	4,737
Total current assets	516,600	502,627
Property and equipment, net	13,689	14,180
Property held for sale	6,113	6,113
Goodwill	1,876	1,883
Intangible assets, net	227,738	234,602
Other assets	8,619	7,619
TOTAL ASSETS	\$ 774,635	\$ 767,024
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 14,482	\$ 14,482
Accounts payable	123,384	106,790
Accrued expenses	196,086	181,246
Total current liabilities	333,952	302,518
Long-term debt, net	300,900	302,916
Long-term liabilities	64,295	64,558
Environmental remediation liability	-	211

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Deferred income tax liability	1,726	1,536
Total liabilities	700,873	671,739
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, 2,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$.01 par value, 75,000 shares authorized; 30,801 and 30,787 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively	308	308
Capital in excess of par value	222,578	222,599
Accumulated deficit	(148,117)	(126,737)
Accumulated other comprehensive loss	(1,007)	(885)
Total shareholders' equity	73,762	95,285
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 774,635	\$767,024

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	
	September 30,	
	2018	2017
Net sales	\$ 164,405	\$ 185,255
Cost of sales	138,925	145,272
Gross profit	25,480	39,983
Selling, general and administrative expenses	36,897	31,149
Research and development expenses	1,881	1,615
Operating (loss) income	(13,298)	7,219
Other (expense) income:		
Interest expense	(6,138)	(5,355)
Interest and other income, net	341	274
	(5,797)	(5,081)
(Loss) income before income taxes	(19,095)	2,138
Income tax provision	1,997	1,684
Net (loss) income	\$(21,092)	\$ 454
Basic (loss) income per common share	\$(0.59)	\$ 0.01
Diluted (loss) income per common share	\$(0.59)	\$ 0.01
Weighted average shares outstanding:		
Basic	35,487	34,975
Diluted	35,487	35,259

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)

	Three months Ended	
	September 30,	
	2018	2017
Net (loss) income	\$ (21,092)	\$ 454
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(334)	2,320
Change in fair value of interest rate swaps	212	106
Comprehensive (loss) income	\$ (21,214)	\$ 2,880

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)

	Three months Ended	
	September 30,	
	2018	2017
Operating activities:		
Net (loss) income	\$(21,092)	\$ 454
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,043	8,301
Amortization of debt issuance costs and debt discount	1,600	1,513
Amortization of deferred financing costs	282	270
Provision for doubtful accounts	(7)	(15)
Non-cash stock compensation	(24)	3,146
Deferred income taxes	146	(1,099)
Environmental charge	-	902
Earnings on equity investment in joint venture	(708)	(231)
Changes in assets and liabilities:		
Trade accounts receivable	(45,332)	21,137
Other receivables	582	149
Inventory	(19,639)	2,225
Prepaid expenses and other current assets	(1,657)	(944)
Other assets	(481)	(334)
Accounts payable	16,691	7,699
Accrued expenses and other liabilities	15,161	792
Net cash (used in) provided by operating activities	(46,435)	43,965
Investing activities:		
Purchases of investments	(653)	(2,655)
Sales of investments	2,673	1,646
Payments for intangible assets	(520)	(54)
Purchases of property and equipment, net	(185)	(1,506)
Net cash provided by (used in) investing activities	1,315	(2,569)
Financing activities:		
Payment of cash dividends	-	(1,935)
Proceeds from exercise of stock options	-	73
Repayment of bank loans	(3,799)	(23,783)
Net cash used in financing activities	(3,799)	(25,645)

Effect of exchange rate changes on cash	(408)	669
Net (decrease) increase in cash	(49,327)	16,420
Cash and cash equivalents at beginning of period	100,874	55,680
Cash and cash equivalents at end of period	\$ 51,547	\$ 72,100

Non-Cash Item

The Company had a non-cash item excluded from the Condensed Consolidated Statement of Cash Flows during the three months ended September 30, 2018 of \$306 related to dividends declared but not paid.

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 Form 10-K for the year ended June 30, 2018.

(2) Revenue Recognition

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* for all contracts in the first quarter of fiscal 2019 on a modified retrospective basis. The adoption of Topic 606 had no cumulative impact on the Company’s results of operations, cash flows or financial position. The amounts reported in these condensed consolidated financial statements were the same as the amounts would have been if the previous accounting guidance was in effect. As part of the adoption of this ASU, the Company completed its comprehensive evaluation of the amended guidance following the five-step model, including identification of revenue streams and determined that the

timing of recognition of revenue is unchanged under the amended guidance.

All revenue recognized in the accompanying unaudited interim condensed consolidated financial statements of operations is considered to be revenue from contracts with customers. The Company recognizes revenue from product sales at the time of shipment and upon the transfer of control of the Company's product. The Company has no acceptance or other post-shipment obligations and does not offer product warranties or services to its customers. The Company generally does not have incremental costs to obtain contracts that would otherwise not have been incurred. Payment terms can vary by the type and location of the customer. The term between invoicing and when payment is due is typically 30 to 90 days.

The following tables show the Company's revenues disaggregated by business segment and product lines offered to customers:

	Three months ended September 30, 2018			
	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Consolidated Totals
Finished dosage form generic drugs	\$69,213	-	-	\$ 69,213
Nutraceutical products	11,633	-	-	11,633
Pharmaceutical intermediates	-	\$ 10,222	-	10,222
Active pharmaceutical ingredients (APIs)	-	28,626	-	28,626
Specialty chemicals	-	-	\$ 36,221	36,221
Agricultural protection products	-	-	8,490	8,490
	\$80,846	\$ 38,848	\$ 44,711	\$ 164,405

	Three months ended September 30, 2017			
	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Consolidated Totals
Finished dosage form generic drugs	\$95,561	-	-	\$ 95,561
Nutraceutical products	10,454	-	-	10,454
Pharmaceutical intermediates	-	\$ 10,136	-	10,136
Active pharmaceutical ingredients (API's)	-	26,440	-	26,440
Specialty chemicals	-	-	\$ 34,020	34,020
Agricultural protection products	-	-	8,644	8,644
	\$106,015	\$ 36,576	\$ 42,664	\$ 185,255

Variable Consideration

The Company has arrangements with various third parties, such as drug store chains and managed care organizations, establishing prices for its finished dosage form generics. While these arrangements are made between Aceto and its customers, the customers independently select a wholesaler from which they purchase the products. Alternatively, certain wholesalers may enter into agreements with the customers, with the Company's concurrence, which establishes the pricing for certain products which the wholesalers provide. Upon each sale of finished dosage form generics, significant estimates of chargebacks, rebates, returns, government reimbursed rebates, sales discounts and other adjustments are made. These estimates are accounted for as variable consideration and are recorded as reductions to gross revenues, with corresponding adjustments either as a reduction of accounts receivable or as a liability for price concessions.

The Company estimates variable consideration after considering applicable information that is reasonably available. These estimates are based on historical experience, future expectations, contractual arrangements with wholesalers and indirect customers, and other factors known to management at the time of accrual. The consideration the Company receives in exchange for its goods is only recognized when it is probable that a significant reversal will not occur.

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Chargebacks

Under certain arrangements, Rising will issue a credit (referred to as a “chargeback”) to the wholesaler for the difference between the invoice price to the wholesaler and the customer’s contract price. In order to calculate the chargeback allowance, prior period chargebacks claimed by wholesalers are analyzed to determine the average chargeback amount for each product and wholesaler. These amounts are adjusted for any information that will better reflect future average chargeback amounts. Management receives on-hand inventory reports from wholesalers to which the average chargeback amount is applied. The provision for chargebacks varies in relation to changes in sales volume, product and customer mix, terms with customers, pricing, changes in Wholesale Acquisition Cost (“WAC”), the level of inventory at the wholesalers, and changes in the volume of off-contract purchases. As sales to the large wholesale customers increase or decrease, the reserve for chargebacks will also generally increase or decrease. The Company continually monitors the reserve for chargebacks and makes adjustments when management believes that expected chargebacks may differ from the actual chargeback reserve.

Returns

The Company maintains a policy that allows customers to return product within a specified period prior to and subsequent to the product expiration date. Product returns are settled through a credit issued to the customer. The Company estimates its provision for returns of finished dosage generics based on historical experience, product expiration dates, changes to business practices, credit terms, new competition, shortages in the market and any extenuating circumstances known to management. While historical experience has allowed for reasonable estimations in the past, future returns may or may not follow historical trends. Generally, the reserve for returns increases as net sales increase. The Company continually monitors the reserve for returns and makes adjustments when management believes that actual product returns may differ from the established reserve.

Sales of nutraceutical products, pharmaceutical active ingredients and intermediates, specialty performance chemicals, including agricultural intermediates and agricultural protection products are recorded net of estimated returns of damaged goods from customers, which historically have been immaterial.

Government Rebates

Government rebates relate to our reimbursement arrangements with state and federal government agencies. Government rebate accruals are based on estimated payments due to governmental agencies for purchases made by plan participants. The Company provides a provision for government reimbursed rebates at the time of sale based on historical redemption rates. Government rebate amounts per product unit for generic products are established by law, based on the Average Manufacturer Price (“AMP”), which is reported on a monthly and quarterly basis. Aceto regularly reviews the information related to these estimates and adjusts the provision accordingly.

Non-Governmental Rebates & Other

Other rebates are offered to the Company’s key chain drug store, distributor and wholesaler customers to promote customer loyalty and increase product sales. These rebate programs provide customers with credits upon attainment of pre-established volumes or attainment of net sales milestones for a specified period. Other promotional programs are incentive programs offered to the customers. These rebates and other promotional programs vary by product and by volume purchase by each eligible customer. The Company provides a provision for other rebates at the time of sale based on contracted rates, actual product sales data and historical redemption rates. Aceto regularly reviews the information related to these estimates and adjusts the provision accordingly.

Sales of nutraceutical products, pharmaceutical active ingredients and intermediates, specialty performance chemicals, including agricultural intermediates and agricultural protection products are recorded net of sales incentives which include volume incentive rebates. The Company records volume incentive rebates based on the underlying revenue transactions that result in progress by the customer in earning the rebate.

ACETO CORPORATION AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Sales Discounts

Sales discount accruals are based on payment terms extended to customers purchasing our finished dosage form generic products. The sales discount reserve is based on the invoices outstanding at period end and the sales discount rate.

The following table summarizes activity in the consolidated balance sheet for contra assets and liability for price concessions for the quarter ended September 30, 2018:

	Accruals for Chargebacks, Rebates, Returns and Other Allowances				
	Chargebacks	Returns	Government Reimbursed Rebates	Non-Governmental Sales Rebates & Other	Sales Discounts
Balance at June 30, 2018	\$ 66,687	\$ 41,511	\$ 9,658	\$ 86,259	\$ 6,408
Current period provision	184,559	6,465	3,061	43,386	6,584
Credits issued during the period	(157,732)	(2,220)	(3,357)	(30,717)	(1,991)
Balance at September 30, 2018	\$ 93,514	\$ 45,756	\$ 9,362	\$ 98,928	\$ 11,001