ACETO CORP
Form 10-Q
February 20, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 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 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 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	¨	Accelerated filer	x
Non-accelerated filer	¨	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 30,839,470 shares of common stock outstanding as of February 12, 2019.

ACETO CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT FOR THE PERIOD ENDED DECEMBER 31, 2018

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EXPLANATORY NOTE

On February 19, 2019, Aceto Corporation ("the Company") and certain of our U.S. subsidiaries (collectively with the Company, the "Debtors") each filed a voluntary petition for relief (the "Bankruptcy Filing") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). The Debtors have proposed to jointly administer their chapter 11 cases under the caption In re Aceto Corporation, et al. (the "Chapter 11 Cases"). All documents filed with the Bankruptcy Court are available for inspection at the Office of the Clerk of the Bankruptcy Court or online at www.primeclerk.com. In connection with the Chapter 11 Cases, the Company will enter into debtor-in-possession financing (the "DIP Credit Agreement") and has entered into a "stalking horse" agreement (the "Asset Purchase Agreement") to sell the Pharmaceutical Ingredients and Performance Chemical segments and the Nutritionals portion of the Human Health segment of the Company's business (the "Chemicals Plus Business").

For additional information regarding the Chapter 11 Cases, the DIP Credit Agreement and the Asset Purchase Agreement, see Note 12 to the Company's Condensed Consolidated Financial Statements and see Item 5 Other Information. For a discussion of risk factors relating to the voluntary reorganization filed under chapter 11, see Item 1A Risk Factors. The disclosures in this Quarterly Report on Form 10-Q should be read in the context of the voluntary reorganizations filed under chapter 11.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share amounts)

	December 31, 2018 (unaudited)	**June 30, 2018**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,782	$ 100,874
Investments	1,013	3,030

Trade receivables, less allowance for doubtful accounts (December 31, 2018, $965; June 30, 2018, $987)	262,325	247,246
Other receivables	7,785	9,664
Inventory	184,307	137,076
Prepaid expenses and other current assets	7,475	4,737
Total current assets	504,687	502,627
Property and equipment, net	13,267	14,180
Property held for sale	6,113	6,113
Goodwill	1,862	1,883
Intangible assets, net	221,039	234,602
Other assets	6,191	7,619
TOTAL ASSETS	$ 753,159	$ 767,024
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 183,772	$ 14,482
Accounts payable	132,375	106,790
Accrued expenses	187,587	181,246
Total current liabilities	503,734	302,518
Long-term debt, net	133,349	302,916
Long-term liabilities	64,033	64,558
Environmental remediation liability	3	211
Deferred income tax liability	1,729	1,536
Total liabilities	702,848	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; 30,839 and 30,787 shares issued and outstanding at December 31, 2018 and June 30, 2018, respectively	308	308
Capital in excess of par value	223,040	222,599
Accumulated deficit	(170,398)	(126,737)
Accumulated other comprehensive loss	(2,639)	(885)
Total shareholders' equity	50,311	95,285
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 753,159	$ 767,024

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

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ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months Ended December 31, 2018	2017
Net sales	$328,054	$356,484
Cost of sales	278,528	282,531
Gross profit	49,526	73,953
Selling, general and administrative expenses	73,897	59,212
Research and development expenses	3,995	3,737
Operating (loss) income	(28,366)	11,004
Other (expense) income:		
Interest expense	(13,707)	(10,403)
Interest and other income, net	1,168	1,038
	(12,539)	(9,365)
(Loss) income before income taxes	(40,905)	1,639
Income tax provision	2,537	15,049
Net loss	$(43,442)	$(13,410)
Basic loss per common share	$(1.22)	$(0.38)
Diluted loss per common share	$(1.22)	$(0.38)
Weighted average shares outstanding:		
Basic	35,540	35,093
Diluted	35,540	35,093

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

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ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months Ended December 31, 2018	2017
Net sales	$ 163,649	$ 171,229
Cost of sales	139,603	137,259
Gross profit	24,046	33,970
Selling, general and administrative expenses	37,000	28,063
Research and development expenses	2,114	2,122
Operating (loss) income	(15,068)	3,785
Other (expense) income:		
Interest expense	(7,569)	(5,048)
Interest and other income, net	827	764
	(6,742)	(4,284)
Loss before income taxes	(21,810)	(499)
Income tax provision	540	13,365
Net loss	$ (22,350)	$ (13,864)
Basic loss per common share	$ (0.63)	$ (0.39)
Diluted loss per common share	$ (0.63)	$ (0.39)
Weighted average shares outstanding:		
Basic	35,592	35,210
Diluted	35,592	35,210

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

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ACETO CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited and in thousands)

	Six months Ended December 31,		**Three months Ended December 31,**	
	2018	2017	2018	2017
Net loss	$(43,442)	$(13,410)	$(22,350)	$(13,864)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,050)	3,226	(716)	906
Change in fair value of interest rate swaps	(704)	982	(916)	876
Comprehensive loss	$(45,196)	$(9,202)	$(23,982)	$(12,082)

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)

	Six months Ended December 31, 2018	Six months Ended December 31, 2017
Operating activities:		
Net loss	$(43,442)	$(13,410)
Adjustments to reconcile net (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	16,160	16,547
Amortization of debt issuance costs and debt discount	3,223	3,048
Amortization of deferred financing costs	564	552
Provision for doubtful accounts	(11)	166
Non-cash stock compensation	454	4,514
Deferred income taxes	139	4,827
Environmental charge	-	902
Earnings on equity investment in joint venture	(1,476)	(1,086)
Changes in assets and liabilities:		
Trade accounts receivable	(15,676)	19,938
Other receivables	1,177	(3,145)
Inventory	(47,833)	(9,956)
Prepaid expenses and other current assets	(2,752)	(472)
Other assets	2,701	(953)
Accounts payable	25,899	16,221
Accrued expenses and other liabilities	6,374	9,212
Net cash (used in) provided by operating activities	(54,499)	46,905
Investing activities:		
Purchases of investments	(660)	(2,683)
Sales of investments	2,664	1,694
Payments for intangible assets	(1,326)	(692)
Purchases of property and equipment, net	(498)	(3,041)
Net cash provided by (used in) investing activities	180	(4,722)
Financing activities:		
Payment of cash dividends	(306)	(3,929)
Proceeds from exercise of stock options	-	595
Repayment of bank loans	(3,865)	(30,582)
Net cash used in financing activities	(4,171)	(33,916)
Effect of exchange rate changes on cash	(602)	983

Net (decrease) increase in cash	(59,092)	9,250
Cash and cash equivalents at beginning of period	100,874	55,680
Cash and cash equivalents at end of period	$41,782	$64,930

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 and Going Concern

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.

Going Concern Consideration

As indicated in the accompanying interim unaudited condensed consolidated financial statements, the Company had working capital at December 31, 2018 of $953 as compared with $200,109 at June 30, 2018. As more fully discussed in Note 6, the maturity date of the bank loans was revised from December 21, 2021 to June 30, 2019, resulting in the classification of the indebtedness outstanding under the Company's credit facility as a current liability as of December 31, 2018. The Company has accumulated deficit and continued operating losses. The Company also continues to spend heavily on financial and legal professionals retained by the Company to deal with ongoing negative factors in the generic drug market and pending legal proceedings. As a result, the Company's cash position declined from $100,874 at June 30, 2018 to $41,782 at December 31, 2018 and its working capital declined from $200,109 at June 30, 2018 to $953 at December 31, 2018. While the Company's operating businesses continue to generate cash, the current demands upon the Company and its liquidity remain significant. These factors, among others, indicate that the Company will need to be reliant upon its previously announced strategic alternatives initiative to supplement its cash, liquid assets and operating cash flows, and to retire debt. Accordingly, because the Company cannot at this time conclude that these actions are probable of occurring, under applicable accounting standards and because of the high degree of uncertainty and dependence upon factors outside of our control associated with the Bankruptcy Filing described below, substantial doubt is deemed to exist about the Company's ability to continue as a going concern. These Condensed Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of certain liabilities and other commitments in the normal course of business. The accompanying Condensed Consolidated Financial Statements do not include any adjustments to reflect the possible future effects of this uncertainty on the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

On February 19, 2019, the Company and certain of its U.S. subsidiaries (collectively with the Company, the "Debtors") each filed a voluntary petition for relief (the "Bankruptcy Filing") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). The Debtors have proposed to jointly administer their chapter 11 cases under the caption In re Aceto Corporation, et al. (the "Chapter 11 Case").

For the duration of the Chapter 11 Cases, our operations are subject to risks and uncertainties associated with chapter 11 proceedings. As a result of these risks and uncertainties, our assets, liabilities, shareholders' equity, officers and/or directors could be significantly different following the conclusion of the Chapter 11 Cases, and the description of our operations, properties and capital plans included in this quarterly report on Form 10-Q may not reflect our actual operations, properties and capital plans following the conclusion of the Chapter 11 Cases.

We intend to sell substantially all of our assets pursuant to one or more sales under Section 363 of the Bankruptcy Code. If we are unable to complete one or more sales of the Company's assets, it may be necessary to explore a plan of reorganization or liquidation or our Chapter 11 Cases may be converted to a chapter 7 liquidation process.

(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.

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Six months ended December 31, 2018			
	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Consolidated Totals
Finished dosage from generic drugs	$142,876	$ -	$ -	$ 142,876
Nutraceutical products	22,951	-	-	22,951
Pharmaceutical intermediates	-	22,754	-	22,754
Active pharmaceutical ingredients (APIs)	-	58,136	-	58,136
Specialty chemicals	-	-	67,803	67,803
Agricultural protection products	-	-	13,534	13,534
	$165,827	$ 80,890	$ 81,337	$ 328,054

	Six months ended December 31, 2017			
	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Consolidated Totals
Finished dosage from generic drugs	$186,322	$ -	$ -	$ 186,322
Nutraceutical products	23,159	-	-	23,159
Pharmaceutical intermediates	-	19,975	-	19,975
Active pharmaceutical ingredients (APIs)	-	50,230	-	50,230
Specialty chemicals	-	-	64,553	64,553
Agricultural protection products	-	-	12,245	12,245
	$209,481	$ 70,205	$ 76,798	$ 356,484

	Three months ended December 31, 2018			
	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Consolidated Totals
Finished dosage from generic drugs	$73,663	$ -	$ -	$ 73,663
Nutraceutical products	11,318	-	-	11,318
Pharmaceutical intermediates	-	12,532	-	12,532
Active pharmaceutical ingredients (APIs)	-	29,510	-	29,510

Specialty chemicals	-	-	31,582	31,582
Agricultural protection products	-	-	5,044	5,044
	$84,981	$ 42,042	$ 36,626	$ 163,649

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended December 31, 2017			
	Human Health	Pharmaceutical Ingredients	Performance Chemicals	Consolidated Totals
Finished dosage from generic drugs	$90,761	$ -	$ -	$ 90,761
Nutraceutical products	12,705	-	-	12,705
Pharmaceutical intermediates	-	9,839	-	9,839
Active pharmaceutical ingredients (APIs)	-	23,790	-	23,790
Specialty chemicals	-	-	30,533	30,533
Agricultural protection products	-	-	3,601	3,601
	$103,466	$ 33,629	$ 34,134	$ 171,229

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.

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 liability for chargebacks will also generally increase or decrease. The Company continually monitors the liability for chargebacks and makes adjustments when management believes that expected chargebacks may differ from the actual chargeback liability.

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 liability for returns increases as net sales increase. The Company continually monitors the liability for returns and makes adjustments when management believes that actual product returns may differ from the established liability.

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Sales Discounts

Sales discount accruals are based on payment terms extended to customers purchasing our finished dosage form generic products. The sales discount liability 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 six months ended December 31, 2018:

	Accruals for Chargebacks, Rebates, Returns and Other Allowances				
	Chargebacks	Returns	Government Reimbursed Rebates	Non-Governmental Rebates & Other	Sales Discounts
Balance at June 30, 2018	$ 66,687	$ 41,511	$ 9,658	$ 86,259	$ 6,408
Current period provision	344,813	8,949	7,562	83,023	14,541
Credits issued during the period	(346,117)	(4,824)	(4,227)	(85,254)	(14,857)
Balance at December 31, 2018	$ 65,383	$ 45,636	$ 12,993	$ 84,028	$ 6,092

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ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Credits issued during a given period represent cash payments or credit memos issued to the Company's customers as settlement for the related liability. Management has the experience and access to relevant information that it believes is necessary to reasonably estimate the amounts of such deductions from gross revenues. The Company regularly reviews the information related to these estimates and adjusts its liabilities accordingly, if and when actual experience differs from previous estimates. The Company has not experienced any significant changes in its estimates as it relates to its chargebacks, rebates, sales discounts or product returns for the periods presented.

(3) 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. Stock Awards that are intended to qualify as "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, may be granted. 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 six months ended December 31, 2018, the Company granted 82 shares of restricted common stock to its employees that vest over three years. During the six months ended December 31, 2017, the Company granted 424 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.

For the three and six months ended December 31, 2018, the Company recorded stock-based compensation expense of approximately $462 and $438, respectively, related to restricted common stock and restricted stock units. For the three and six months ended December 31, 2017, the Company recorded stock-based compensation expense of approximately $1,363 and $4,495, respectively, related to restricted common stock and restricted stock units. Included in the $4,495 for the six months ended December 31, 2017 is $2,017 in stock-based compensation expense associated with the separation of the Company’s former Chief Executive Officer in September 2017. As of December 31, 2018, the total unrecognized stock-based compensation cost is approximately $3,044.

ACETO CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(4) Capital Stock

On November 2, 2018, the Board approved the adoption of a Tax Asset Protection Plan and on November 5, 2018, the Company entered into a Tax Asset Protection Rights Agreement (the “Rights Agreement”), between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent (the “Rights Agent”). The purpose of the Rights Agreement is to help preserve the Company’s ability to utilize its significant tax benefits. On November 5, 2018, in connection with the entry into the Rights Agreement, the Board authorized and declared a dividend of one preferred stock purchase right (a “Right”) for each share of Common Stock outstanding as of the close of business on November 15, 2018 (the “Record Date”). Each Right entitles the registered holder to purchase from the Company one one-thousandth (subject to adjustment) of a share of Series A Participating Cumulative Preferred Stock, par value $2.50 per share (each, a “Series A Preferred Share” and collectively, the “Series A Preferred Shares”), of the Company at a price of $10.85 (as the same may be adjusted, the “Purchase Price”), and upon the terms and conditions set forth in the Rights Agreement.

The Rights become exercisable upon (i) a shareholder acquiring beneficial ownership of 4.99% or more of the outstanding shares of the Company’s common stock without prior approval of the Board, or (ii) a shareholder who already beneficially owns 4.99% or more of the outstanding shares of the Company’s common stock increasing its beneficial ownership by more than 0.5%. The Rights Agreement and the related Rights expire on November 5, 2020, or earlier upon the occurrence of certain other circumstances specified in the Rights Agreement. The Company intends to submit the Rights Agreement to a vote of its shareholders at the Company’s next annual meeting. For more information, please see the Company’s Current Report on Form 8-K filed with the SEC on November 6, 2018.

On September 6, 2018, the Company's board of directors declared a regular quarterly dividend of $.01 per share which was distributed on October 9, 2018 to shareholders of record as of September 24, 2018.

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 did not repurchase shares in the three or six months ended December 31, 2018 or in fiscal year 2018.

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.

(5) Net 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:

	Six Months Ended		**Three Months Ended**	
	December 31,		**December 31,**	
	2018	2017	2018	2017
Weighted average shares outstanding	35,540	35,093	35,592	35,210
Dilutive effect of stock options and restricted stock awards and units	-	-	-	-
Diluted weighted average shares outstanding	35,540	35,093	35,592	35,210

The effect of approximately 6 and 20 common equivalent shares for the three and six months ended December 31, 2018, respectively, was excluded from the diluted weighted average shares outstanding due to a net loss for the periods. The effect of approximately 158 and 221 common equivalent shares for the three and six months ended December 31, 2017, respectively, was excluded from the diluted weighted average shares outstanding due to a net loss for the periods.

There were 2,024 and 1,598 common equivalent shares outstanding for the three and six months ended December 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. There were 197 and 129 common equivalent shares outstanding for the three and six months ended December 31, 2017, respectively, that were not included in the calculation of diluted net income per common share because their effect would have been anti-dilutive.

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The weighted average shares outstanding for the three and six months ended December 31, 2018 and 2017 includes the effect of 5,122 shares to be issued in connection with the acquisition of certain products and related assets from Citron and Lucid. The Convertible Senior Notes (see Note 6) 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.

(6) Debt

Long-term debt

	December 31, 2018	**June 30, 2018**
Convertible Senior Notes, net	$ 131,080	$127,857
Revolving Bank Loans	62,000	62,000
Term Bank Loans	121,574	124,959
Mortgage	2,467	2,582
	317,121	317,398
Less current portion	183,772	14,482
	$ 133,349	$302,916

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:

	December 31, 2018	June 30, 2018
Principal amount	$ 143,750	$ 143,750
Unamortized debt discount	(11,104)	(13,909)
Unamortized debt issuance costs	(1,566)	(1,984)
Net carrying value	$ 131,080	$ 127,857

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

	Six Months Ended December 31, 2018	Three Months Ended December 31, 2018
Contractual coupon	$ 1,378	$ 708
Amortization of debt discount	2,805	1,414
Amortization of debt issuance costs	418	209
	$ 4,601	$ 2,331

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 was permitted to 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 December 31, 2018, the principal balance on the outstanding Revolving Loans (as defined under the A&R Credit Agreement) aggregated $62,000, which loans are Eurodollar Loans at interest rates ranging from 9.51% to 9.76% at December 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 December 31, 2018, the remaining principal amount outstanding under the Initial Term Loan was $123,750 and was payable as a Eurodollar Loan at an interest rate of 9.39%. 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 to 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 on 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 December 31, 2018 and June 30, 2018.

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 of 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.

On May 3, 2018, the Company entered into a Second Amendment and Waiver to the Second Amended and Restated Credit Agreement (the “May 2018 Amendment”). The May 2018 Amendment, among other things, contained 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 Total Net Leverage Ratio and Debt Service Coverage Ratio financial covenants, in each case, solely for the fiscal quarter ended March 31, 2018. The May 2018 Amendment also contained several amendments to the A&R Credit Agreement including, among other things, reducing the available revolving commitment thereunder to $100,000, fixing the applicable margin on Loans (as defined in the A&R Credit Agreement) to the highest level provided under the A&R Credit Agreement at the time, fixing the commitment fee on the undrawn revolving commitments to the highest level provided under the A&R Credit Agreement at the time, requiring prior written consent of the Required Lenders (as defined in the A&R Credit Agreement) as a condition precedent to the lenders making any additional Revolving Loans or the issuing banks issuing, amending, renewing or extending any Letter of Credit (as defined in the A&R Credit Agreement), restricting 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 restricting dividends or distributions thereafter, restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

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As of June 30, 2018, the Company was not in compliance with its financial covenants relating to its Total Net Leverage Ratio, Senior Secured Net Leverage Ratio and Debt Service Coverage Ratio. The Company and its lenders agreed upon another amendment and waiver to the A&R Credit Agreement (referred to herein as the “September 2018 Amendment”). The September 2018 Amendment provided for 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, Senior Secured Net Leverage Ratio and Debt Service Coverage Ratio financial covenants, in each case, solely for the fiscal quarters ended or ending June 30, 2018, September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019. The September 2018 Amendment also contains several amendments to the A&R Credit Agreement including, among other things, (a) a limitation on dividends for the fiscal quarters ending September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019, to an amount not to exceed $325 for any fiscal quarter, (b) increasing the applicable margin with respect to the interest rates on all Loans by 450 basis points and fixing (during the September 2018 Amendment Limitation Period (as hereinafter defined)) the applicable margin with respect to the interest rate on all Loans to the highest level provided under the A&R Credit Agreement which is currently 6.00% in the case of ABR Loans and 7.00% in the case of Eurodollar Loans, (c) during the period commencing on the closing of the September 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 September 30, 2019 (referred to herein as the “September 2018 Amendment 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 September 30, 2019, then the September 2018 Amendment Limitation Period shall continue indefinitely), requiring the Company to maintain the sum of Domestic Liquidity (as defined in the A&R Credit Agreement) plus Foreign Liquidity (as defined in the A&R Credit Agreement) and the undrawn portion of the Revolving Commitment (referred to herein as “Covenant Liquidity”) to an amount of at least $55,000 (the “Covenant Liquidity Amount”) as of the last business day of each week following the effectiveness of the September 2018 Amendment; provided that the Company shall not be in breach of the minimum liquidity covenant unless the Covenant Liquidity is less than the Covenant Liquidity Amount as of the last business day of two consecutive weeks, (d) requiring the prior written consent of the Required Lenders as a condition precedent to the lenders extending any Loans or the issuing banks issuing, amending, renewing or extending any Letter of Credit, (e) permitting the purchase, during fiscal 2019, of assets for an aggregate consideration not to exceed $12,300, consisting of intangible assets relating to strategic product acquisitions and certain capital expenditures, and (f) restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

On January 8, 2019 (the “Fourth Amendment Effective Date”), the Company further amended the A&R Credit Agreement, constituting a Fourth Amendment and Limited Waiver (the “January 2019 Amendment”). The January 2019 Amendment contains certain amendments to the Credit Agreement relating to the revolver access and vendor and business partner payments, under which the Company is permitted (a) to request and borrow up to an additional $23,000 as Revolving Loans; and (b) to purchase, prior to the repayment of these newly borrowed Revolving Loans and during (x) the Company’s fiscal year 2019, assets in an aggregate amount not to exceed $6,500 or (y) the third quarter of the Company's fiscal year 2019, assets in an aggregate amount not to exceed $3,105, in each case, consisting of intangible assets relating to strategic product acquisitions, certain data compensation expenses and certain capital expenditures.

The January 2019 Amendment also contains modifications to the A&R Credit Agreement relating to cash management and liquidity. In general, further compliance with the minimum liquidity covenant from the September 2018 Amendment has been permanently waived, there is a cash anti-hoarding provision, and there are restrictions on the Company and its Domestic Subsidiaries (as defined in the A&R Credit Agreement) transferring funds to its Foreign Subsidiaries (as defined in the A&R Credit Agreement) and prohibitions on paying dividends and making similar distributions.

The January 2019 Amendment mandates certain milestones with respect to the Company's strategic process. In general, the milestones require delivery to the Administrative Agent (as defined in the A&R Credit Agreement) and lenders of proposals and commitments from financially credible third parties, the proceeds of which would be sufficient and used to repay both the Revolving Loans borrowed on or after the Fourth Amendment Effective Date and the remaining Obligations (as defined in the A&R Credit Agreement). The Company has been taking steps to meet these milestones, but no assurance may be given that they will be successfully met. The January 2019 Amendment also revises both the Revolving Loan Maturity Date (as defined in the A&R Credit Agreement) and Term Loan Maturity Date to June 30, 2019, the last day of the Company's current fiscal year. Based on the new maturity dates, the Company has classified the indebtedness outstanding under the Company's credit facility as a current liability as of December 31, 2018.

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The January 2019 Amendment provides for a waiver of any event of default under the A&R Credit Agreement arising as a result of the failure by the Company (x) to make certain principal and interest payments under the A&R Credit Agreement that were due on or about December 31, 2018 (which were instead paid pursuant to the January 2019 Amendment on the Fourth Amendment Effective Date), (y) to pay interest on certain deferred payment amounts to the sellers under the 2016 Citron product purchase agreement, and (z) as described above, the non-compliance by the Company with the liquidity financial covenant. The January 2019 Amendment provides for the payment of a fee equal to 2.0% of each lender's revolving commitment that is available or borrowed after the Fourth Amendment Effective Date, a 0.25% (of each such lender's aggregate exposure) consent fee to the lenders who timely consented to the January 2019 Amendment, increases the waiver fees imposed under the September 2018 Amendment from 4.0% to 6.0% but only under certain circumstances, and provides for reimbursement of certain third party expenses incurred by the Administrative Agent and lenders.

On January 31, 2019, the Company entered into a Limited Waiver to the Second Amended and Restated Credit Agreement (the "January 2019 Waiver"). The January 2019 Waiver provides for a waiver of any event of default under the A&R Credit Agreement arising as a result of the failure by the Company to deliver to the Administrative Agent and the lenders a binding commitment letter with respect to subordinated financing by January 31, 2019.

In conjunction with the A&R Credit Agreement, the Company entered into 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 was December 21, 2021. The remaining notional balance of this derivative as of December 31, 2018 is $80,000. In January 2019, the Company terminated the interest rate swap agreement resulting in a cash receipt of $1,145.

Mortgage

On June 30, 2011, the Company obtained a loan in the principal amount of $3,947, secured by a mortgage on its corporate headquarters in Port Washington, New York. This mortgage loan is being amortized over a period of 20 years. The mortgage loan bears interest at 4.92% per annum as December 31, 2018 and matures on June 30, 2021.

(7) 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 $22,900 and $24,700. Remediation commenced in fiscal 2010, and as of December 31, 2018 and June 30, 2018, a liability of $4,010 and $5,746, respectively, is included in the accompanying consolidated balance sheets for this matter. There were no environmental charges for the six months ended December 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. In June 2018, the Company entered into an agreement to sell the Arsynco property to an unrelated third party for $6,340. The sale is subject to due diligence by the buyer and the Company is not sure when or if the sale will close. The sale price 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 December 31, 2018 and June 30, 2018 is $1,805 and $2,586, 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.

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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 its 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 $5,644 in fiscal 2019.

In connection with the acquisition of certain products and related assets from Citron and Lucid, Aceto committed to make a $50,000 unsecured deferred payment that bears interest at a rate of 5% per annum to the sellers on December 21, 2021 and to issue 5,122 shares of Aceto common stock beginning on December 21, 2019. The product purchase agreement also provides for 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. As of December 31, 2018, there was no amount accrued related to this contingent consideration based upon management's evaluation and assessment of the financial performance of these products.

In February 2018, 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 Lucid were not in compliance with the federal Trade Agreement Act ("TAA") country-of-origin provisions of a clause (the "Trade Agreements 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 Acetris 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. Acetris knew that it would be unable to meet these short deadlines. To avoid the government's imposition of penalties for failure to meet these deadlines while Acetris appealed the above-mentioned findings, Acetris requested that the government defer imposition of these deadlines pending resolution of Acetris' appeal. The Government declined this request and thereafter Acetris and the government entered into agreements that provided for a no-cost termination of each of the 11 supply contracts.

On July 10, 2018, the Company was informed that Acetris received a favorable ruling from the United States Court of Federal Claims (the “Court”), in Acetris Health, LLC v. United States, invalidating the VA interpretation of the Trade Agreements Clause, which had resulted in the termination of 11 Acetris contracts with the VA. Finding in favor of Acetris, the Court granted a declaratory judgment establishing that under the federal Buy America Act the agencies are permitted to buy domestic end products, including commercial off-the-shelf products like generic drugs, that are manufactured in the United States when the Trade Agreements Clause is incorporated in government supply contracts, even if their components are not all manufactured in the United States. Although Department of Defense (the “DoD”) contracts were not at issue in the case, the decision also impacts Acetris’ ability to supply DoD with its products. The government’s appeal of the ruling is pending. Even if the Court’s ruling is affirmed on appeal, the Court’s ruling did not have the effect of reinstating the 11 terminated government supply agreements. Acetris may seek new contracts with these agencies, but no assurance can be given that any such contracts will be awarded.

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. In May 2018, Rising and the Company filed a motion to stay the action and compel arbitration, as required by the Agreement. In addition, SigmaPharm filed a “motion to enforce audit rights” in the federal litigation. On October 26, 2018, the district court granted Rising’s and the Company’s Motion to Stay and Compel Arbitration and denied Sigmapharm’s Motion to Enforce and Audit; thus the federal court action has been placed in suspense and the parties must proceed to arbitration.

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SigmaPharm has stopped supplying Products to Rising, claiming that it has validly terminated the Sigmapharm Agreement. Accordingly, in June 2018, Rising filed an arbitration claim against SigmaPharm in New Jersey, seeking recovery from SigmaPharm of any failure-to-supply losses Rising may incur as well as lost future profits on sale of the Products, among other relief. The Company intends to vigorously protect its rights in these matters and prosecute its claim for damages against SigmaPharm. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not currently known.

On April 16, 2018, the Company's Rising subsidiary received a Grand Jury subpoena (the "DOJ Subpoena") from the Antitrust Division of the DOJ. Rising is cooperating with the DOJ in response to the DOJ Subpoena.

The Company and certain of its current and former officers are named defendants in two putative securities class actions (the "Securities Class Action Lawsuits") filed in the United States District Court for the Eastern District of New York in April 2018, captioned Mulligan v. Aceto Corporation, et al, No. 2:18-cv-02425, and Yang v. Aceto Corporation, No. 1:18-cv-02437. The complaints arise from the April 19, 2018 drop in the Company's stock price following the Company's announcement on April 18, 2018 that it would recognize a substantial impairment charge for the third fiscal quarter. The complaints generally allege that the defendants violated the Securities Exchange Act of 1934 by making false and misleading statements in public filings with the SEC and seek unspecified damages. On June 26, 2018, five motions were filed seeking to appoint lead plaintiff and approve lead plaintiff's counsel pursuant to the Private Securities Litigation Reform Act of 1995, as well as to consolidate the Mulligan or Yang actions. Three motions were subsequently withdrawn or abandoned, and the remaining two motions are pending before the Court. Following the appointment of a lead plaintiff, the Company expects that the appointed lead plaintiff will file a single consolidated amended class action complaint to supersede the earlier complaints. The Company intends to vigorously defend itself. The impact of the resolution of this matter on the Company's results of operations in a particular reporting period is not currently known.

(8) 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

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 particular 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 December 31, 2018, the Company had foreign currency contracts outstanding that had a notional amount of $61,904. Unrealized losses on hedging activities for the three and six months ended December 31 2018, was $362 and $693, respectively. Unrealized (losses) gains on hedging activities for the three and six months ended December 31, 2017 was ($34) and $261, 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.

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In conjunction with its existing credit agreement (see Note 6), the Company entered into 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 remaining notional balance of this derivative as of December 31, 2018 is $80,000. The expiration date of this interest rate swap was December 21, 2021. The unrealized gain to date associated with this derivative, which is recorded in accumulated other comprehensive loss in the consolidated balance sheet at December 31, 2018, is $1,135. Aceto's interest rate swaps are classified within Level 2 as the fair value of this hedge is primarily based on observable interest rates. In January 2019, the Company terminated the interest rate swap agreement resulting in a cash receipt of $1,145.

At June 30, 2018, the Company had $683 of contingent consideration which related to the acquisition of certain products and related assets of Citron and Lucid, which was completed in December 2016. In the second quarter of fiscal 2019, the Company reversed $724 of contingent consideration due to management's evaluation and assessment of the financial performance of these products. As a result, there is no remaining balance as of December 31, 2018.

The Company evaluates goodwill for impairment at the reporting unit level using a market participant approach using Level 3 inputs. Additionally, on a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. During the three and six months ended December 31, 2018 and 2017, there were no indicators of impairment. During the fiscal year ended June 30, 2018, the Company recognized a pre-tax non-cash goodwill impairment charge of $235,110 related to the Rising reporting unit.

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. During the three and six months ended December 31, 2018 and 2017 there was no loss of any major customers or a discontinuation of any major product and as such, there was no impairment.

In connection with the acquisition of certain products and related assets of Citron and Lucid, the Company will issue 5,122 shares of Aceto common stock beginning on December 21, 2019. The 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 6). 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 $109,000 at December 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.

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

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	Fair Value Measurements at December 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	-	$ 4,620	-	$ 4,620
Investments:				
Time deposits	-	1,013	-	1,013
Foreign currency contracts-assets (1)	-	97	-	97
Foreign currency contracts-liabilities (2)	-	462	-	462
Derivative asset for interest rate swap (3)	-	1,135	-	1,135

(1) Included in “Other receivables” in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2018.
(2) Included in “Accrued expenses” in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2018.
(3) Included in “Other receivables” in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2018.

	Fair Value Measurements at June 30, 2018 Using			
	Quoted Prices in Active Markets	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	Total

	(Level 1)			
Cash equivalents:				
Time deposits	-	$ 3,218	-	$ 3,218
Investments:				
Time deposits	-	3,030	-	3,030
Foreign currency contracts-assets (4)	-	362	-	362
Foreign currency contracts-liabilities (5)	-	304	-	304
Derivative asset for interest rate swap (6)	-	1,839	-	1,839
Contingent consideration (7)	-	-	$ 683	683

(4) Included in “Other receivables” in the accompanying Consolidated Balance Sheet as of June 30, 2018.
(5) Included in “Accrued expenses” in the accompanying Consolidated Balance Sheet as of June 30, 2018.
(6) Included in “Other Assets” in the accompanying Consolidated Balance Sheet as of June 30, 2018.
(7) Included in “Long-term liabilities” in the accompanying Consolidated Balance Sheet as of June 30, 2018.

(9) Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. The changes affect all companies that are required to include fair value measurement disclosures. In general, the amendments in ASU 2018-13 are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt the removed or modified disclosures upon the issuance of ASU 2018-13 and may delay adoption of the additional disclosures, which are required for public companies only, until their effective date. The Company is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

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In June 2018, the FASB issued ASU 2018-07 *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

In February 2018, the 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 does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

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. In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. ASU 2018-16 expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The amendments in ASU 2017-12 and ASU 2018-16 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 and ASU 2018-16.

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 adopted ASU 2017-09 in the first quarter of fiscal 2019. The adoption did not have any impact on the Company's condensed 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 adoption did not have any impact on the Company's condensed 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 adopted ASU 2016-15 in the first quarter of fiscal 2019. The adoption did not have any impact on the Company's condensed consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* as amended in July 2018 by ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements*, that replace 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. These ASU’s are 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 these ASU’s and anticipates recognition of additional assets and corresponding liabilities relating to these leases on its consolidated balance sheet but does not expect the adjustment to be material assuming no changes in lease activity.

(10) 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.

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

Six months Ended December 31, 2018 and 2017:

	Human Health	**Pharmaceutical Ingredients**	**Performance Chemicals**	**Unallocated Corporate**	**Consolidated Totals**
2018					
Net sales	$165,827	$ 80,890	$ 81,337	$ -	$ 328,054
Gross profit	19,298	13,247	16,981	-	49,526
(Loss) income before income taxes	(23,643)	5,719	9,173	(32,154)	(40,905)
2017					
Net sales	$209,481	$ 70,205	$ 76,798	$ -	$ 356,484
Gross profit	47,545	10,221	16,187	-	73,953
Income (loss) before income taxes	7,314	2,808	7,422	(15,905)	1,639

Three months Ended December 31, 2018 and 2017:

	Human Health	**Pharmaceutical Ingredients**	**Performance Chemicals**	**Unallocated Corporate**	**Consolidated Totals**
2018					
Net sales	$84,981	$ 42,042	$ 36,626	$ -	$ 163,649
Gross profit	10,822	6,353	6,871	-	24,046
(Loss) income before income taxes	(10,596)	2,321	3,245	(16,780)	(21,810)
2017					
Net sales	$103,466	$ 33,629	$ 34,134	$ -	$ 171,229
Gross profit	22,898	4,381	6,691	-	33,970
Income (loss) before income taxes	2,288	577	2,477	(5,841)	(499)

(11) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“the TCJA”) was signed into law, 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 allowed 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 the then currently available information, the Company recorded additional income tax expense of $13,739 for the year ended June 30, 2018. The charge was comprised of $5,075 related to the remeasurement of Aceto’s deferred tax assets arising from a lower U.S. corporate tax rate, $6,219 related to the deemed repatriation of unremitted earnings of foreign subsidiaries (the “transition tax”) and $2,445 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. The Company finalized the calculations of the transition tax liability in the quarter ended December 31, 2018, with a reduction to the amount previously recorded of $405.

(12) Subsequent Events

On February 19, 2019, the Company and certain of its U.S. subsidiaries (collectively with the Company, the “Debtors”) each filed a voluntary petition for relief (the “Bankruptcy Filing”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of New Jersey (the “Bankruptcy Court”). The Debtors have proposed to jointly administer their chapter 11 cases under the caption In re Aceto Corporation, et al. (the “Chapter 11 Cases”). Each of the Debtors remains in possession of its respective assets and will continue to operate its respective business as a “debtor-in-possession” under the jurisdiction of the Bankruptcy Court, and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

In connection with the Chapter 11 Cases, on February 18, 2019, the Company and certain of its U.S. subsidiaries (collectively, the “Sellers”) entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with NMC Atlas, L.P., a Delaware limited partnership (the “Buyer”), an affiliate of New Mountain Capital, L.L.C., pursuant to which the Buyer agreed to acquire substantially all of the assets and assume certain liabilities of the Pharmaceutical Ingredients and Performance Chemicals segments and the Nutritionals portion of the Human Health segment of the Company pursuant to Sections 363 and 365 of the Bankruptcy Code for an aggregate purchase price of $338,000 in cash plus the assumption of certain liabilities (as set forth in the Asset Purchase Agreement), subject to adjustments with respect to net current assets at closing. The Asset Purchase Agreement is intended to constitute a “stalking horse” bid that is subject to higher and better bids by third parties in accordance with bidding procedures to be approved by the Bankruptcy Court. The Asset Purchase Agreement requires the Debtors to obtain Bankruptcy Court approval of the bidding procedures by April 1, 2019 and the Sale Order on or before 45 days after the Bankruptcy Court’s entry of the bidding procedures.

In connection with the Chapter 11 Cases, the Company and certain of its U.S. subsidiaries (collectively, the “DIP Borrowers”) will enter into a Senior Secured, Priming and Superprioity Debtor-in-Possession Credit Agreement (the “DIP Credit Agreement”) with the lenders party thereto from time to time (the “DIP Lenders”) and Wells Fargo Bank, National Association, as administrative agent for the DIP Lenders (the “DIP Administrative Agent”),. The DIP Credit Agreement is subject to approval of the Bankruptcy Court and will become effective upon, in addition to other customary closing conditions, the entry of the Interim Order (as defined in the DIP Credit Agreement). The DIP Credit Agreement provides for a $60,000 debtor-in-possession revolving credit facility (the “DIP Facility”). Pursuant to the terms of the DIP Credit Agreement, interest will accrue on the principal balance of the DIP Loans (as defined in the DIP Credit Agreement) at a rate per annum equal to (a) LIBOR for such interest period plus 7.00% in respect of Eurodollar Loans (as defined in the DIP Credit Agreement) and (b) the alternate base rate plus 6.00% in respect of ABR Borrowings (as defined in the DIP Credit Agreement).

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 December 31, 2018 and related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended December 31, 2018 and 2017, and cash flows for the six-month periods ended December 31, 2018 and 2017 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended December 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, 2018, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated September 28, 2018, 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, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Emphasis of Matter Regarding Going Concern

The accompanying December 31, 2018 financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the financial statements, the Company has significant indebtedness due within the next twelve months and cash flow from operations has not been sufficient to meet the Company's liquidity demands. As a result the Company filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on February 19, 2019. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

/s/ BDO USA, LLP

Melville, New York
February 20, 2019

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

On February 19, 2019, the Debtors filed the Chapter 11 Cases in the Bankruptcy Court. The Debtors have proposed to jointly administer the Chapter 11 Cases under the caption In re Aceto Corporation, et al. For a description of the Chapter 11 Cases and related matters, including the DIP Credit Agreement and the Asset Purchase Agreement, please see Item 5 Other Information.

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. Among other statements, the statements in this Quarterly Report regarding the potential execution of a “stalking horse agreement” for the sale of Rising Pharmaceuticals, Inc. and its subsidiaries (the “Pharma Business”), the consequences of the Company having entered into a “stalking horse” agreement for the sale of the Chemicals Plus Business, the timing for consummation of the referenced sales, the effect of the bankruptcy process, the use of the proceeds of the DIP Credit Facility and the post-petition operation of the Company constitute 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. Potential risks, influences and uncertainties 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, compliance with changing regulations, our ability to obtain approval with respect to motions in the Chapter 11 Cases and the Bankruptcy Court's rulings in the Chapter 11 Cases and the outcome of the Chapter 11 Cases in general, the length of time the Company and its U.S. subsidiaries will operate under the Chapter 11 Cases, risks associated with third-party motions in the Chapter 11 Cases, which may interfere with our and our U.S. subsidiaries' ability to develop and consummate the asset purchase transactions, the potential adverse effects of the Chapter 11 Cases on our and our U.S. subsidiaries' liquidity, results of operations or business prospects, increased legal and advisor costs related to the Chapter 11 Cases and other litigation and the inherent risks involved in a bankruptcy process, the effect of the Chapter 11 Cases on the trading price of our securities, our ability to fulfill our obligations to our customers, suppliers and employees, the ability of our employees and customers to benefit from the pending transactions, delays in completing sales or other transactions, our access, on favorable terms, to any required financing 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, our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 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 $328,054 for the six months ended December 31, 2018, which represents an 8.0% decrease from the $356,484 reported in the comparable prior period. Gross profit for the six months ended December 31, 2018 was $49,526 and our gross margin was 15.1% as compared to gross profit of $73,953 and gross margin of 20.7% in the comparable prior period. Our selling, general and administrative costs ("SG&A") for the six months ended December 31, 2018 was $73,897, an increase of $14,685 from what we reported in the prior period. Our net loss was $(43,442), or $(1.22) per diluted share, compared to a net loss of $(13,410), or $(0.38) per diluted share, in the prior period. Our cash, cash equivalents and short-term investments at December 31, 2018 totaled $42,795 as compared with $103,904 at June 30, 2018. Our working capital at December 31, 2018 was $953 (as compared with $200,109 at June 30, 2018). Our shareholders' equity was $50,311 at December 31, 2018, as compared with $95,285 at June 30, 2018.

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As previously disclosed:

- During the third quarter of fiscal 2018, the Company recognized pre-tax non-cash impairment charges of $256,266 consisting of $235,110 of a goodwill impairment charge and a $21,156 write-down of other identifiable intangible assets for its Rising reporting unit, which is part of the Human Health segment.

- The Company has incurred substantial expenses to address the issues that led to the impairment charges taken in fiscal 2018, to manage the Company's other business units and to explore strategic alternatives. The Company has retained financial and legal advisors to assist it in dealing with the various challenges that the Company is currently facing, including legal advisors retained in connection with various ongoing legal proceedings.

- As referenced in the Company's press release issued April 18, 2018, the Board of Directors initiated a process to identify and evaluate a range of strategic alternatives. As a result of that process, the Company determined to file for relief under chapter 11 of the Bankruptcy Code. See Item 5 Other Information.

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

Human Health

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. 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.

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 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.

Pharmaceutical Ingredients

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.

Performance Chemicals

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 a January 18, 2019 Federal Reserve Statistical Release, in the fourth 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 4.3%.

Aceto’s agricultural protection products include herbicides, fungicides and insecticides used on various crops including sugarcane and nuts, 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 expect to continue to offer new product additions in this market. In the USDA, National Agricultural Statistics Service release dated June 29, 2018, the total crop acreage planted in the United States in 2018 increased by .9% to 322 million acres from 319 million acres in 2017. The number of peanut acres planted in 2018 decreased 19.7% from 2017 levels while sugarcane acreage harvested decreased 2.1% from 2017. In addition, the potato acreage harvested in 2018 decreased approximately 1.0% from the 2017 level.

We believe our main business strengths are sourcing, regulatory support, quality assurance and 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 more than 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

Critical Accounting Estimates and Policies

As disclosed in our Form 10-K for the year ended June 30, 2018, 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 December 31, 2018, there have been no significant changes to the assumptions and estimates related to those critical accounting estimates and policies.

RESULTS OF OPERATIONS

Six Months Ended December 31, 2018 Compared to Six Months Ended December 31, 2017

Net Sales by Segment

Six months ended December 31,

	2018		2017		Comparison 2018 Over/(Under) 2017	
Segment	Net sales	% of Total	Net sales	% of Total	$ Change	% Change
Human Health	$165,827	50.5 %	$209,481	58.8 %	$(43,654)	(20.8)%
Pharmaceutical Ingredients	80,890	24.7	70,205	19.7	10,685	15.2
Performance Chemicals	81,337	24.8	76,798	21.5	4,539	5.9
Net sales	$328,054	100.0%	$356,484	100.0%	$(28,430)	(8.0)%

Gross Profit by Segment

Six months ended December 31,

	2018		2017		Comparison 2018 Over/(Under) 2017	
Segment	Gross Profit	% of Sales	Gross Profit	% of Sales	$ Change	% Change
Human Health	$19,298	11.6%	$47,545	22.7%	$(28,247)	(59.4)%
Pharmaceutical Ingredients	13,247	16.4	10,221	14.6	3,026	29.6
Performance Chemicals	16,981	20.9	16,187	21.1	794	4.9
Gross profit	$49,526	15.1%	$73,953	20.7%	$(24,427)	(33.0)%

Net Sales

Net sales decreased $28,430, or 8.0%, to $328,054 for the six months ended December 31, 2018, compared with $356,484 for the prior period. We reported sales increases in our Performance Chemicals and Pharmaceutical Ingredients segments and a sales decline in our Human Health segment.

Human Health

Net sales for the Human Health segment decreased by $43,654 for the six months ended December 31, 2018, to $165,827, which represents a 20.8% decrease over net sales of $209,481 for the prior period. Sales of Rising products decreased $43,446 from the prior year as the persistent adverse conditions in the generics market have continued including continued pricing pressure, intense competition and related consolidation of customers, delays in receiving supplies and delayed product launches. Rising incurred approximately $6,514 in failure to supply penalties charged by certain customers based upon replacement cost or contractual cost.

Rising accrues for what it believes is a reasonable level for FTS charges as part of its revenue recognition policies. However, beginning in the third quarter of fiscal 2018, Rising was subjected to an extraordinary magnitude of FTS claims.

Rising's asset-light business model leverages multiple drug development and manufacturing partnerships in the development of its finished dosage form generic products, placing it in an intermediate position in the product supply chain. As industry headwinds have made the supply chain more competitive, FTS charges have impacted intermediate entities such as Rising to a greater degree.

Rising becomes aware of an FTS claim when notified by a customer. Most of Rising's customers and wholesalers can unilaterally deduct amounts claimed for FTS from product payments due Rising. If Rising believes the deduction was improper, it is in the difficult position of seeking a refund from a party that controls the flow of funds in the relationship. In addition, some customers that do not have a contractual right to an FTS claim may still take credit against the amount claimed by them for other products supplied by Rising.

On the other end of the supply chain, in order to recover FTS penalties paid, Rising must often seek full or partial reimbursement through deduction or collection from its suppliers, many of whom are also its partners. Thus, Rising is relegated to seeking payment from entities it must continue to rely on for future product supply.

FTS claim calculations vary from customer to customer – some use a replacement cost model and others use a contracted cost amount. The timing of when customer claims are made is also inconsistent; some claims are for prior periods as far back as several months.

Rising reviews all FTS claims and asserts a defense (and rebills the non-justifiable amount) to customers where appropriate. Rising is in continuing negotiations with its customers to recover amounts that Rising believes are not justified.

Rising bills its partners, who are also its suppliers, for either (i) (with the exception of one partner) the full amount of the FTS claim, if the charge was caused by non-performance on the part of the partner; (ii) the partner's profit split percentage if the charge was caused by shared non-performance; or (iii) another negotiated amount. Rising has billed approximately $3,905 in FTS charges to supplier partners in the six months ended December 31, 2018.

In the event that the profits distributed to a partner, including the partner's share of FTS and other expenses such as returned goods are insufficient to cover such expenses, Rising typically records a receivable from such partner. These receivables are reviewed for collectability and a liability is recorded if deemed appropriate.

Rising has taken several steps to remediate FTS challenges, including (i) a concerted effort to improve inventory levels; (ii) the institution of enhanced tracking of supply levels to minimize future instances of FTS; (iii) the development of a robust supply and demand forecast to align customer and supplier expectations, and (iv) increased communications at senior levels with suppliers. In addition, the Company is accelerating the review and adjudication of FTS claims.

Pharmaceutical Ingredients

Net sales for the Pharmaceutical Ingredients segment increased $10,685 or 15.2% to $80,890 when compared to the prior period net sales of $70,205. The increase in sales for this segment was due primarily to a rise in foreign sales of $9,071, of which $6,465 was from an increase in sales of APIs sold abroad, primarily from our German subsidiaries, and $2,606 was from an increase in foreign sales of pharmaceutical intermediates due to increased demand of certain API products, as well as new business.

Performance Chemicals

Net sales for the Performance Chemicals segment was $81,337 for the six months ended December 31, 2018, representing an increase of $4,539 or 5.9%, from net sales of $76,798 for the prior period. The Specialty Chemicals business experienced an increase in sales of $3,250 over the prior period, predominantly due to increased domestic sales of $1,648 primarily due to a rise in sales of $1,503 in surface coatings. Sales of specialty chemicals sold abroad increased $1,602 over the prior period. The remaining increase was from an increase in agricultural protection products mainly due to the timing of orders of an herbicide.

Gross Profit

Gross profit decreased $24,427 to $49,526 (15.1% of net sales) for the six months ended December 31, 2018, as compared to $73,953 (20.7% of net sales) for the prior period.

Human Health

Human Health segment's gross profit of $19,298 for the six months ended December 31, 2018 decreased $28,247 or 59.4%, over the prior period. The gross margin of 11.6% was lower than the prior period's gross margin of 22.7%. The decrease in Human Health's gross profit was primarily related to the decline of $28,146 in gross profit on Rising's products, due to the sales decline. The decline in gross margin is primarily driven by unfavorable product mix on certain Rising products, continued pricing pressure, intense competition and related consolidation of customers and FTS charges. In addition, certain of our partners have not performed in accordance with their agreements with such partners, which have caused us to incur additional costs.

Pharmaceutical Ingredients

Pharmaceutical Ingredients' gross profit of $13,247 for the six months ended December 31, 2018 increased $3,026, or 29.6%, over the prior period. The gross margin of 16.4% was higher than the prior period's gross margin of 14.6%. The increase in gross profit and gross margin was predominantly the result of the increase in the sales volume of APIs sold abroad.

Performance Chemicals

Gross profit for the Performance Chemicals segment increased to $16,981 for the six months ended December 31, 2018, versus $16,187 for the prior period, an increase of $794 or 4.9%, predominantly from a sales increase of specialty chemical products sold abroad. The gross margin at 20.9% for the six months ended December 31, 2018 was consistent with the prior year's gross margin of 21.1%.

Selling, General and Administrative Expenses

SG&A of $73,897 for the six months ended December 31, 2018 increased $14,685 or 24.8% from $59,212 reported for the prior period. As a percentage of sales, SG&A increased to 22.5% for the six months ended December 31, 2018 versus 16.6% in the prior period. As previously discussed, the Company has incurred substantial expenses to address the issues that led to the impairment charges taken in fiscal 2018, to manage the Company's other business units and to explore strategic alternatives. As a result, the increase in SG&A is primarily due to approximately $18,004 of costs incurred by the Company to address the challenges impacting the Human Health business, including fees for financial advisors, professional fees, costs for senior staff retention and stabilization of corporate operations. SG&A also increased due to an increase of approximately $1,725 in legal fees and $493 increase in insurance costs related to various legal proceedings, an increase in payroll and fringe benefits of $2,811 due to annual merit increases and an increase of $562 due to additional accounting, audit and tax fees. These increases were offset by decreases of $4,060 in stock-based compensation, consulting fees of $1,382 and depreciation and amortization of $459. SG&A for the prior year included $4,064 of one-time costs associated with the separation of the Company's former Chief Executive Officer, including $2,017 of stock-based compensation, and environmental remediation charges of $902.

Research and Development Expenses

Research and development expenses (“R&D”) increased to $3,995 for the six months ended December 31, 2018 compared to $3,737 for the prior period. R&D expenses represent investment in our generic finished dosage form product pipeline. The majority of the R&D expenses are milestone based, which was the primary cause for such increase and will likely cause fluctuation from quarter to quarter.

Operating (Loss) Income

For the six months ended December 31, 2018 we had an operating loss of $(28,366) compared to operating income of $11,004 in the prior period, a decrease of $39,370.

Interest Expense

Interest expense was $13,707 for the six months ended December 31, 2018, an increase of $3,304 or 31.8% from the prior period. The increase in interest expense was primarily due to additional interest expense associated with the May 2018 Amendment and the September 2018 Amendment.

Interest and Other Income, Net

Interest and other income, net was $1,168 for the six months ended December 31, 2018, an increase of $130 from the prior period, primarily due to an increase in income related to a joint venture for one of our agricultural protection products offset by unrealized foreign exchange losses from mark-to-market valuation of foreign currency futures contracts.

Provision for Income Taxes

The effective tax rate for the six months ended December 31, 2018 was (6.2) % compared to 918.2% for the prior year. The effective tax rate in the current period represents the full valuation allowance on domestic operations, income tax associated with foreign jurisdictions as well as a discrete adjustment for additional tax related to a disallowance regarding the structure of our performance award program. In the six months ended December 31, 2017, we recorded $1,101 of additional income tax expense associated with net tax deficiencies under ASU 2016-09, which was adopted in the first quarter of fiscal 2018.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“the TCJA”) was signed into law, 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 allowed Aceto to provide a provisional estimate of the impacts of the TCJA in its earnings for the fiscal year ended June 30, 2018. Additional impacts from the enactment of the TCJA were to be recorded as they were identified during the measurement period ending no later than December 22, 2018 as provided for in SAB 118. For the six-month period ended December 31, 2018, we recorded a reduction of $405 of income tax expense associated with finalizing our calculations related to the TCJA. For the six months ended December 31, 2017, we recorded additional income tax expense of $13,909 related to the TCJA.

Three Months Ended December 31, 2018 Compared to Three Months Ended December 31, 2017

Net Sales by Segment

Three months ended December 31,

Segment	2018 Net sales	2018 % of Total	2017 Net sales	2017 % of Total	Comparison 2018 Over/(Under) 2017 $ Change	Comparison 2018 Over/(Under) 2017 % Change
Human Health	$84,981	51.9 %	$103,466	60.4 %	$(18,485)	(17.9)%
Pharmaceutical Ingredients	42,042	25.7	33,629	19.6	8,413	25.0
Performance Chemicals	36,626	22.4	34,134	20.0	2,492	7.3
Net sales	$163,649	100.0%	$171,229	100.0%	$(7,580)	(4.4)%

Gross Profit by Segment

Three months ended December 31,

Segment	2018 Gross Profit	2018 % of Sales	2017 Gross Profit	2017 % of Sales	Comparison 2018 Over/(Under) 2017 $ Change	Comparison 2018 Over/(Under) 2017 % Change
Human Health	$10,822	12.7%	$22,898	22.1%	$(12,076)	(52.7)%
Pharmaceutical Ingredients	6,353	15.1	4,381	13.0	1,972	45.0
Performance Chemicals	6,871	18.8	6,691	19.6	180	2.7
Gross profit	$24,046	14.7%	$33,970	19.8%	$(9,924)	29.2 %

Net Sales

Net sales decreased $7,580, or 4.4%, to $163,649 for the three months ended December 31, 2018, compared with $171,229 for the prior period. We reported a sales decrease in our Human Health segment and increases in our Performance Chemicals and Pharmaceutical Ingredients segments.

Human Health

Net sales for the Human Health segment decreased by $18,485 for the three months ended December 31, 2018, to $84,981, which represents a 17.9% decrease over net sales of $103,466 for the prior period. Sales of Rising products decreased $17,098 from the prior year as the persistent adverse conditions in the generics market have continued including continued pricing pressure, intense competition and related consolidation of customers. Rising experienced minimal FTS charges in the three months ended December 31, 2018. In addition, sales from Acetris Health declined over the prior period due to the reduction of the VA business previously discussed. Sales of nutritional products declined $1,387 over the prior period mainly due to a decrease in nutraceutical products sold abroad as a result of reduced demand on three products and timing of shipments.

Pharmaceutical Ingredients

Net sales for the Pharmaceutical Ingredients segment increased $8,413 or 25.0% to $42,042 when compared to the prior period net sales of $33,629. The increase in sales for this segment was due primarily to an increase in sales of APIs of $5,720 sold both domestically and abroad. The increase in APIs was mainly due to increased demand on several products and two new launches. In addition, sales of pharmaceutical intermediaries sold abroad increased $2,817 due to increased demand on two products and new business.

Performance Chemicals

Net sales for the Performance Chemicals segment was $36,626 for the three months ended December 31, 2018, representing an increase of $2,492 or 7.3%, from net sales of $34,134 for the prior period. Sales of Performance Chemicals abroad increased by $1,904 primarily due to new business. Performance Chemicals sales were also impacted by a $1,443 increase in sales of our agricultural protection products, predominantly from orders that shipped in the second quarter this year compared to shipping in the third or fourth quarter in the prior fiscal period.

Gross Profit

Gross profit decreased $9,924 to $24,046 (14.7% of net sales) for the three months ended December 31, 2018, as compared to $33,970 (19.8% of net sales) for the prior period.

Human Health

Human Health segment’s gross profit of $10,822 for the three months ended December 31, 2018 decreased $12,076, or 52.7%, over the prior period. The gross margin of 12.7% was lower than the prior period’s gross margin of 22.1%.The decrease in Human Health’s gross profit was primarily related to the decline of $12,084 in gross profit on Rising’s products, due to the sales decline. The decline in gross margin is primarily driven by unfavorable product mix on certain Rising products, continued pricing pressure, intense competition and related consolidation of customers.

Pharmaceutical Ingredients

Pharmaceutical Ingredients' gross profit of $6,353 for the three months ended December 31, 2018 increased $1,972, or 45.0%, over the prior period. The gross margin of 15.1% was higher than the prior period's gross margin of 13.0%. The increase in gross profit and gross margin was predominantly the result of the increase in the sales volume of APIs sold abroad, as well as favorable product mix.

Performance Chemicals

Gross profit for the Performance Chemicals segment increased to $6,871 for the three months ended December 31, 2018, versus $6,691 for the prior year, an increase of $180 or 2.7%. The gross margin at 18.8% for the three months ended December 31, 2018 was lower than the prior year's gross margin of 19.6%. The decrease in gross margin was due to unfavorable product mix on domestic sales of specialty chemical products.

Selling, General and Administrative Expenses

SG&A of $37,000 for the three months ended December 31, 2018 increased $8,937 or 31.8% from $28,063 reported for the prior period. As a percentage of sales, SG&A increased to 22.6% for the three months ended December 31, 2018 versus 16.4% in the prior period. As previously discussed, the Company has incurred substantial expenses to address the issues that led to the impairment charges taken in fiscal 2018, to manage the Company's other business units and to explore strategic alternatives. As a result, the increase in SG&A is primarily due to approximately $9,461 of costs incurred by the Company to address the challenges impacting the Human Health business, including fees for financial advisors, professional fees, costs for senior staff retention and stabilization of corporate operations.

Research and Development Expenses

R&D expenses decreased to $2,114 for the three months ended December 31, 2018 compared to $2,122 for the prior period. R&D expenses represent investment in our generic finished dosage form product pipeline.

Operating (Loss) Income

For the three months ended December 31, 2018 we had an operating loss of $(15,068) compared to operating income of $3,785 in the prior period, a decrease of $18,853 or 498.1%.

Interest Expense

Interest expense was $7,569 for the three months ended December 31, 2018, an increase of $2,521 or 49.9% from the prior period. The increase was primarily due to additional interest expense associated with the May 2018 Amendment and the September 2018 Amendment.

Provision for Income Taxes

The effective tax rate for the three months ended December 31, 2018 was (2.5)% compared to a not meaningful rate for the prior period. For the three months ended December 31, 2018, we recorded a reduction of $405 of income tax expense associated with finalizing our calculations related to the TCJA. For the three months ended December 31, 2017, we recorded $13,909 of additional income tax expense associated with the TCJA.

Liquidity and Capital Resources

Cash Flows

At December 31, 2018, we had $41,782 in cash, of which $23,776 was outside the United States, $1,013 in short-term investments, all of which is held outside the United States, and $317,121 in long-term debt (including the current portion), all of which is an obligation in the United States. Working capital was $953 at December 31, 2018 compared to $200,109 at June 30, 2018. The $23,776 of cash held outside of the United States is fully accessible to meet any liquidity needs of our business located in any of the countries in which we operate. The majority of the cash located outside of the United States is held by our European operations and can be transferred into the United States. Although these amounts are fully accessible, transferring these amounts into the United States or any other countries could have certain local tax consequences. In accordance with the Tax Cuts and Jobs Act of 2017, we record additional income tax expense related to deferred tax liabilities for local tax authorities as we no longer assert permanent reinvestment of our undistributed non-U.S. subsidiaries' earnings. A portion of our cash is held in operating accounts that are with third party financial institutions. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to cash in our operating accounts.

As significant demands on our cash persisted, our cash position at December 31, 2018 decreased $59,092 from the amount at June 30, 2018, predominantly due to the net loss of $43,442 during the period, as well as an increase in inventory and accounts receivable.

Operating activities for the six months ended December 31, 2018 used cash of $54,499 for this period, as compared to cash provided of $46,905 for the comparable period. The $54,499 use of cash resulted from $43,442 in net loss and $19,053 derived from adjustments for non-cash items and a net decrease of $30,110 from changes in operating assets and liabilities. The non-cash items included $16,160 in depreciation and amortization expense, $139 for deferred income taxes and $3,787 for amortization of debt issuance costs, debt discount and deferred financing costs offset in part by $1,476 of earnings on an equity investment in a joint venture. Trade accounts receivable increased $15,676 during the six months ended December 31, 2018, due predominantly to an increase in days sales outstanding, particularly at our Rising subsidiary, as well as an increase in sales of Rising products in the second quarter of fiscal 2019 compared to the fourth quarter of fiscal 2018. Inventories increased by $47,833 and accounts payable increased by $25,899 due primarily to inventories held in stock at our Rising subsidiary and a ramp up of inventory for our Pharmaceutical Ingredients segment due to shipments to occur in the following quarters of fiscal year 2019, as well as timing of payments processed at the end of the quarter. In addition, Specialty Chemicals inventories increased due to the build-up of inventory as a result of the Chinese tariffs as well as increased Agricultural Protection Products inventory for the anticipated sale of certain products expected to be shipped in the third and fourth quarters of fiscal 2019. Accrued expenses and other liabilities increased $6,374 due primarily to a rise in price concessions for our Rising business. Operating activities for the six months ended December 31, 2017 provided cash of $46,905 for this period. The $46,905 resulted from a $13,410 in net loss, $29,470 derived from net adjustments for non-cash items and a net $30,845 increase from changes in operating assets and liabilities.

Investing activities for the six months ended December 31, 2018 provided cash of $180 primarily from sales of investments in time deposits of $2,664 offset by purchases of investments of $660 and purchases of property and equipment and intangible assets of $1,824. Investing activities for the six months ended December 31, 2017 used cash of $4,722 primarily from purchases of property and equipment and intangible assets of $3,733 and purchases of investments in time deposits of $2,683, offset by sales of investments in time deposits of $1,694.

Financing activities for the six months ended December 31, 2018 used cash of $4,171, consisting of $3,865 in repayments of bank loans and $306 in payment of cash dividends. Financing activities for the six months ended December 31, 2017 used cash of $33,916 primarily from repayment of bank loans of $30,582 and $3,929 in payment of cash dividends.

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 was permitted to 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 December 31, 2018, the principal balance on the outstanding Revolving Loans (as defined under the A&R Credit Agreement) aggregated $62,000, which loans are Eurodollar Loans at interest rates ranging from 9.51% to 9.76% at December 31, 2018. The applicable interest rate margin percentage is subject to adjustment quarterly based upon the Company’s senior secured net leverage ratio.

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 December 31, 2018, the remaining principal amount outstanding under the Initial Term Loan was $123,750 and was payable as a Eurodollar Loan at an interest rate of 9.39%. 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 to 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 on 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 December 31, 2018 and June 30, 2018.

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 of 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.

On May 3, 2018, the Company entered into a Second Amendment and Waiver to the Second Amended and Restated Credit Agreement (the "May 2018 Amendment"). The May 2018 Amendment, among other things, contained 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 Total Net Leverage Ratio and Debt Service Coverage Ratio financial covenants, in each case, solely for the fiscal quarter ended March 31, 2018. The May 2018 Amendment also contained several amendments to the A&R Credit Agreement including, among other things, reducing the available revolving commitment thereunder to $100,000, fixing the applicable margin on Loans (as defined in the A&R Credit Agreement) to the highest level provided under the A&R Credit Agreement at the time, fixing the commitment fee on the undrawn revolving commitments to the highest level provided under the A&R Credit Agreement at the time, requiring prior written consent of the Required Lenders (as defined in the A&R Credit Agreement) as a condition precedent to the lenders making any additional Revolving Loans or the issuing banks issuing, amending, renewing or extending any Letter of Credit (as defined in the A&R Credit Agreement), restricting 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 restricting dividends or distributions thereafter, restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

As of June 30, 2018, the Company was not in compliance with its financial covenants relating to its Total Net Leverage Ratio, Senior Secured Net Leverage Ratio and Debt Service Coverage Ratio. The Company and its lenders agreed upon another amendment and waiver to the A&R Credit Agreement (referred to herein as the "September 2018 Amendment"). The September 2018 Amendment provided for 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, Senior Secured Net Leverage Ratio and Debt Service Coverage Ratio financial covenants, in each case, solely for the fiscal quarters ended or ending June 30, 2018, September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019. The September 2018 Amendment also contains several amendments to the A&R Credit Agreement including, among other things, (a) a limitation on dividends for the fiscal quarters ending September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019, to an amount not to exceed $325 for any fiscal quarter, (b) increasing the applicable margin with respect to the interest rates on all Loans by 450 basis points and fixing (during the September 2018 Amendment Limitation Period (as hereinafter defined)) the applicable margin with respect to the interest rate on all Loans to the highest level provided under the A&R Credit Agreement which is currently 6.00% in the case of ABR Loans and 7.00% in the case of Eurodollar Loans, (c) during the period commencing on the closing of the September 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 September 30, 2019 (referred to herein as the "September 2018 Amendment 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 September 30, 2019, then the September 2018 Amendment Limitation Period shall continue indefinitely), requiring the Company to maintain the sum of Domestic Liquidity (as defined in the A&R Credit Agreement) plus Foreign Liquidity (as defined in the A&R Credit Agreement) and the undrawn portion of the Revolving Commitment (referred to herein as "Covenant Liquidity") to an amount of at least $55,000 (the "Covenant Liquidity Amount") as of the last business day of each week following the effectiveness of the September 2018 Amendment; provided that the Company shall not be in breach of the minimum liquidity covenant unless the Covenant Liquidity is less than the Covenant Liquidity Amount as of the last business day of two consecutive weeks, (d) requiring the prior written consent of the Required Lenders as a condition precedent to the lenders extending any Loans or the issuing banks issuing, amending, renewing or extending any Letter of Credit, (e) permitting the purchase, during fiscal 2019, of assets for an aggregate consideration not to exceed $12,300, consisting of intangibles assets relating to strategic product acquisitions and certain capital expenditures, and (f) restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

On January 8, 2019 (the "Fourth Amendment Effective Date"), the Company further amended the A&R Credit Agreement, constituting a Fourth Amendment and Limited Waiver (the "January 2019 Amendment"). The January 2019 Amendment contains certain amendments to the Credit Agreement relating to the revolver access and vendor and business partner payments, under which the Company is permitted (a) to request and borrow up to an additional $23,000 as Revolving Loans; and (b) to purchase, prior to the repayment of these newly borrowed Revolving Loans and during (x) the Company's fiscal year 2019, assets in an aggregate amount not to exceed $6,500 or (y) the third quarter of the Company's fiscal year 2019, assets in an aggregate amount not to exceed $3,105, in each case, consisting of intangible assets relating to strategic product acquisitions, certain data compensation expenses and certain capital expenditures.

The January 2019 Amendment also contains modifications to the A&R Credit Agreement relating to cash management and liquidity. In general, further compliance with the minimum liquidity covenant from the September 2018 Amendment has been permanently waived, there is a cash anti-hoarding provision, and there are restrictions on the Company and its Domestic Subsidiaries (as defined in the A&R Credit Agreement) transferring funds to its Foreign Subsidiaries (as defined in the A&R Credit Agreement) and prohibitions on paying dividends and making similar distributions.

The January 2019 Amendment mandates certain milestones with respect to the Company's strategic process. In general, the milestones require delivery to the Administrative Agent (as defined in the A&R Credit Agreement) and lenders of proposals and commitments from financially credible third parties, the proceeds of which would be sufficient and used to repay both the Revolving Loans borrowed on or after the Fourth Amendment Effective Date and the remaining Obligations (as defined in the A&R Credit Agreement). The Company has been taking steps to meet these milestones, but no assurance may be given that they will be successfully met. The January 2019 Amendment also revises both the Revolving Loan Maturity Date (as defined in the A&R Credit Agreement) and Term Loan Maturity Date to June 30, 2019, the last day of the Company's current fiscal year. Based on the new maturity dates, the Company has classified the indebtedness outstanding under the Company's credit facility as a current liability as of December 31, 2018.

The January 2019 Amendment provides for a waiver of any event of default under the A&R Credit Agreement arising as a result of the failure by the Company (x) to make certain principal and interest payments under the A&R Credit Agreement that were due on or about December 31, 2018 (which were instead paid pursuant to the January 2019 Amendment on the Fourth Amendment Effective Date), (y) to pay interest on certain deferred payment amounts to the sellers under the 2016 Citron product purchase agreement, and (z) as described above, the non-compliance by the Company with the liquidity financial covenant. The January 2019 Amendment provides for the payment of a fee equal to 2.0% of each lender's revolving commitment that is available or borrowed after the Fourth Amendment Effective Date, a 0.25% (of each such lender's aggregate exposure) consent fee to the lenders who timely consented to the January 2019 Amendment, increases the waiver fees imposed under the September 2018 Amendment from 4.0% to 6.0% but only under certain circumstances, and provides for reimbursement of certain third party expenses incurred by the Administrative Agent and lenders.

On January 31, 2019, the Company entered into a Limited Waiver to the Second Amended and Restated Credit Agreement (the "January 2019 Waiver"). The January 2019 Waiver provides for a waiver of any event of default under the A&R Credit Agreement arising as a result of the failure by the Company to deliver to the Administrative Agent and the lenders a binding commitment letter with respect to subordinated financing by January 31, 2019.

In conjunction with the A&R Credit Agreement, the Company entered into 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 was December 21, 2021. The remaining notional balance of this derivative as of December 31, 2018 is $80,000. In January 2019, the Company terminated the interest rate swap agreement resulting in a cash receipt of $1,145.

On February 19, 2019, the Company entered into the DIP Credit Agreement. For information regarding the DIP Credit Agreement and certain related matters, see Item 5 Other Information.

Working Capital Outlook

Working capital was $953 at December 31, 2018 versus $200,109 at June 30, 2018.

In connection with the acquisition of certain products and related assets from Citron and Lucid, Aceto committed to make a $50,000 unsecured deferred payment that bears interest at a rate of 5% per annum to the sellers on December 21, 2021 and to issue 5,122 shares of Aceto common stock beginning on December 21, 2019.

In November 2015, we offered $125,000 aggregate principal amount of 2% Convertible Senior Notes due 2020 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. In addition, we 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 remaining net proceeds received from the offering, after paying down our credit facilities and costs associated with the offering and a related hedge transaction, have been used for general corporate purposes, which may include funding research, development and product manufacturing, acquisitions or investments in businesses, products or technologies that are complementary to Aceto's own, increasing working capital and funding capital expenditures.

In connection with our agricultural protection business, we plan to continue to acquire product registrations and related data filed with the United States Environmental Protection Agency as well as payments to various task force groups, which could approximate $5,644 in fiscal 2019.

In connection with our environmental remediation obligation for Arsynco, we anticipate paying $4,010 towards remediation of the property in the next twelve months, which is included in accrued expenses in our Condensed Consolidated Balance Sheet as of December 31, 2018, and, as noted above, our working capital declined to $953 at December 31, 2018. Given the substantial reduction in the Company's liquidity, the Company has determined to seek the protection of the Bankruptcy Code. See Item 5 Other Information.

As indicated in the accompanying interim unaudited condensed consolidated financial statements, the Company had working capital at December 31, 2018 of $953 as compared with $200,109 at June 30, 2018. As more fully discussed in Note 6, the maturity date of the bank loans was revised from December 21, 2021 to June 30, 2019, resulting in the classification of the indebtedness outstanding under the Company's credit facility as a current liability as of December 31, 2018. The Company has accumulated deficit and continued operating losses. The Company also continues to spend heavily on financial and legal professionals retained by the Company to deal with ongoing negative factors in the generic drug market and pending legal proceedings. As a result, our cash position declined from $100,874 at June 30, 2018 to $41,782 at December 31, 2018.

On February 19, 2019, the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtors have proposed to jointly administer their chapter 11 cases under the caption In re Aceto Corporation, et al.

For the duration of the Chapter 11 Cases, our operations are subject to risks and uncertainties associated with chapter 11 proceedings. As a result of these risks and uncertainties, our assets, liabilities, shareholders' equity, officers and/or directors could be significantly different following the conclusion of the Chapter 11 Cases, and the description of our operations, properties and capital plans included in this quarterly report on Form 10-Q may not reflect our actual operations, properties and capital plans following the conclusion of the Chapter 11 Cases.

We intend to sell substantially all of our assets pursuant to one or more sales under Section 363 of the Bankruptcy Code. If we are unable to complete one or more sales of the Company's assets, it may be necessary to explore a plan of reorganization or liquidation or our Chapter 11 Cases may be converted to a chapter 7 liquidation process.

Therefore, the outcome of the chapter 11 process is subject to a high degree of uncertainty and is dependent upon factors outside of our control, including determinations by the Bankruptcy Court and actions and positions taken by our creditors. The significant risks and uncertainties related to the Company's ability to pay significant indebtedness due within the next twelve months, our liquidity and the Chapter 11 Cases raise substantial doubt about our ability to continue as a going concern. The Company's Condensed Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of certain liabilities and other commitments in the normal course of business. The Company's Condensed Consolidated Financial Statements do not include any adjustments to reflect the possible future effects of this uncertainty on the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

Impact of Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The primary focus of ASU 2018-13 is to improve the effectiveness of the disclosure requirements for fair value measurements. The changes affect all companies that are required to include fair value measurement disclosures. In general, the amendments in ASU 2018-13 are effective for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt the removed or modified disclosures upon the issuance of ASU 2018-13 and may delay adoption of the additional disclosures, which are required for public companies only, until their effective date. The Company is currently evaluating the impact these changes will have on the Company's consolidated financial statements and disclosures.

In June 2018, the FASB issued ASU 2018-07 *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

In February 2018, the 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 does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

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. In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. ASU 2018-16 expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The amendments in ASU 2017-12 and ASU 2018-16 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 and ASU 2018-16.

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 adopted ASU 2017-09 in the first quarter of fiscal 2019. The adoption did not have any impact on the Company's condensed 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 adoption did not have any impact on the Company's condensed 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 adopted ASU 2016-15 in the first quarter of fiscal 2019. The adoption did not have any impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* as amended in July 2018 by ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements*, that replace 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. These ASU's are 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 these ASU's and anticipates recognition of additional assets and corresponding liabilities relating to these leases on its consolidated balance sheet but does not expect the adjustment to be material assuming no changes in lease activity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Sensitive Instruments

The market risk inherent in our market-risk-sensitive instruments and positions is the potential loss arising from adverse changes in investment market prices, foreign currency exchange-rates and interest rates.

Investment Market Price Risk

We had short-term investments of $1,013 at December 31, 2018 and $3,030 at June 30, 2018. Those short-term investments consisted of time deposits. Time deposits are short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value.

Foreign Currency Exchange Risk

In order to reduce the risk of foreign currency exchange rate fluctuations, we hedge some of our transactions denominated in a currency other than the functional currencies applicable to each of our various entities. The instruments used for hedging are short-term foreign currency contracts (futures). The changes in market value of such contracts have a high correlation to price changes in the currency of the related hedged transactions. At December 31, 2018, we had foreign currency contracts outstanding that had a notional amount of $61,904. At June 30, 2018 our outstanding foreign currency contracts had a notional amount of $56,108. The difference between the fair market value of the foreign currency contracts and the related commitments at inception and the fair market value of the contracts and the related commitments at December 31, 2018 was not material.

We are subject to risk from changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income (loss). On December 31, 2018, we had translation exposure to various foreign currencies, with the most significant being the Euro. The potential loss as of December 31, 2018, resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounted to $6,709. On June 30, 2018 such potential loss amounted to $6,573. Actual results may differ.

Interest rate risk

Due to our financing, investing and cash-management activities, we are subject to market risk from exposure to changes in interest rates. We utilize a balanced mix of debt maturities along with both fixed-rate and variable-rate debt to manage our exposure to changes in interest rates. Our financial instrument holdings were analyzed to determine their sensitivity to interest rate changes. In this sensitivity analysis, we used the same change in interest rate for all maturities. All other factors were held constant. If there were an adverse change in interest rates of 10%, the expected effect on net income related to our financial instruments would be immaterial. However, there can be no assurances that interest rates will not significantly affect our results of operations.

In conjunction with the Credit Agreement, the Company entered into 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 December 31, 2018 is $80,000. The unrealized loss to date associated with this derivative, which is recorded in accumulated other comprehensive income in the consolidated balance sheet at December 31, 2018, is $1,135. In January 2019, the Company terminated the interest rate swap agreement resulting in a cash receipt of $1,145.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer, with assistance from other members of our management, have reviewed the effectiveness of our disclosure controls and procedures as of December 31, 2018 and, based on their evaluation, have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As previously described in our Form 10-K for the year ended June 30, 2018, we are subject to various environmental proceedings for which there were no material changes during the six months ended December 31, 2018.

The Company incorporates by reference into this Item 1 the disclosures made with respect to pending legal proceedings set forth in Note 7 (Commitments, Contingencies and Other Matters) to the Company’s Condensed Consolidated Financial Statements presented elsewhere herein.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed under Part I - “Item 1A. Risk Factors” in our Form 10-K for the year ended June 30, 2018 which could materially adversely affect our business, financial condition, operating results and cash flows. The risks and uncertainties described in our Form 10-K for the year ended June 30, 2018 are not the only ones we face. Additionally, risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition, operating results or cash flows.

The material impairment charge that we recorded in fiscal 2018 was based on several adverse factors, certain of which have continued to materially adversely impact the Company beyond year-end.

In the third quarter of fiscal 2018, we recorded impairment charges for goodwill and intangible assets of $256,266, all of which related to the Rising Pharmaceuticals reporting unit which is part of the Human Health segment. During the third quarter of fiscal 2018, our Rising Pharmaceuticals reporting unit had a decline in actual and forecasted revenue and earnings due to the persistent adverse conditions in the generics market. In addition, the U.S. government made a determination (which was subsequently reversed) that 11 generic drug products we acquired through our Acetris Health subsidiary (part of the Rising Pharmaceuticals reporting unit) in a product purchase agreement with Lucid were not in compliance with the country-of-origin provisions of a clause contained in the government supply contracts acquired from Lucid. As a result of the foregoing, we conducted an impairment test and recognized a significant goodwill and intangible asset impairment charge.

Many of the market and industry factors that led to the March 31, 2018 impairment charges have continued to impact us. The difficult conditions in the generic drug market have been compounded by the continuing impact of failures to supply and other negative market factors. We also continue to spend heavily on financial and legal professionals retained by us to deal with ongoing negative factors in the market and pending legal proceedings. As a result, our cash position declined from $100,874 at June 30, 2018 to $41,782 at December 31, 2018 and our working capital declined from $200,109 at June 30, 2018 to $953 at December 31, 2018.

We are subject to risks and uncertainties associated with our Chapter 11 Cases.

Our operations and our ability to continue as a going concern are subject to risks and uncertainties associated with the Chapter 11 Cases. These risks include the following:

- our ability to continue as a going concern;
- our ability to obtain court approval with respect to motions filed in Chapter 11 Cases from time to time, including a motion to approve debtor-in-possession financing and one or more motions to approve sales of substantially all of the Company's assets;
- our ability to maintain our relationships with our suppliers, service providers, customers, employees and other third parties;
- our ability to maintain contracts that are critical to our operations;
- our ability to obtain acceptable and appropriate financing;
- the ability of third parties to seek and obtain court approval to terminate or compel us to reject contracts and other agreements with us;
- our ability to develop, confirm and consummate a chapter 11 plan or alternative restructuring transaction;
- the ability of third parties to seek and obtain court approval to terminate or shorten the exclusivity period for us to propose and confirm a chapter 11 plan, to appoint a chapter 11 trustee, or to convert the Chapter 11 Cases to a chapter 7 proceeding; and
- the actions and decisions of our creditors and other third parties who are parties in interest in our Chapter 11 Cases that may be inconsistent with our actions and decisions.

Because of the risks and uncertainties associated with our Chapter 11 Cases, we cannot accurately predict or quantify the ultimate impact of events that will occur during our Chapter 11 Cases.

We may not be able to complete any Bankruptcy Court-approved sales of our Company or assets through the chapter 11 process, or we may not be able to realize adequate consideration for such sales, which would adversely affect our financial condition.

In connection with the Chapter 11 Cases, we intend to sell substantially all of our assets pursuant to one or more sales under Section 363 of the Bankruptcy Code. The Company and certain of its subsidiaries entered into the Asset Purchase Agreement pursuant to which NMC Atlas, L.P. (the "Buyer"), a Delaware limited partnership (and an affiliate of New Mountain Capital, L.L.C.) agreed to acquire substantially all of the assets and assume certain liabilities of the Company's Chemicals Plus Business pursuant to Sections 363 and 365 of the Bankruptcy Code. The Asset Purchase Agreement is subject to Bankruptcy Court approval and intended to constitute a "stalking horse" bid that is subject to higher and better bids by third parties in accordance with bidding procedures to be approved by the Bankruptcy Court. There can be no assurance that we will be able to obtain approval and complete the proposed sale because there may be objections from our stakeholders, which could include a committee of unsecured creditors or other debt holders or our equity holders.

The Debtors are also seeking bids for the sale of the Company's Pharma Business segment. There can be no assurance that we will be successful in entering into an agreement for, or completing, any such sale because, among other things, we may not receive sufficient consideration for such assets, or there may be objections from our stakeholders, which could include a committee of unsecured creditors or other debt holders or our equity holders. Such a sale would also be subject to the approval of the Bankruptcy Court.

If we are unable to complete one or more sales of the Company’s assets, it may be necessary to seek additional funding sources or possibly convert to a Chapter 7 liquidation process. If one or more sales of the Company’s assets are completed, they may not generate the anticipated or desired outcomes.

From time to time, we may also receive inquiries from third parties regarding our potential interest in disposing of certain of our assets, which we may choose to pursue in accordance with procedures approved by the Bankruptcy Court. Any dispositions may result in us recognizing significant losses. As a result, such asset dispositions could have a material adverse effect on our business, financial condition, liquidity and results of operations.

We are subject to risks and uncertainties with respect to the actions and decisions of our creditors and other third parties who have interests in our Chapter 11 Cases that may be inconsistent with our plans.

These risks and uncertainties could significantly affect our business and operations in various ways. For example, negative publicity or events associated with the Chapter 11 Cases may adversely affect our relationships with our vendors and employees, as well as with customers and business partners, which in turn could materially and adversely affect our business, financial condition, liquidity and results of operations. In addition, pursuant to the Bankruptcy Code, we need Bankruptcy Court approval for transactions outside the ordinary course of business, which may impact our ability to take advantage of certain opportunities. Because of the risks and uncertainties associated with the Chapter 11 Cases, we cannot predict or quantify the ultimate impact that events occurring during the pendency of the Chapter 11 Cases will have on our business, financial condition, liquidity, results of operations, or the certainty as to our ability to continue as a going concern. As a result of the Chapter 11 Cases, realization of assets and liquidation of liabilities are subject to uncertainties. While operating under the protection of the Bankruptcy Code, and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, we may sell or otherwise dispose of a portion or all of our assets and liquidate or settle liabilities for amounts other than those reflected in our Consolidated Condensed Financial Statements.

Our businesses could suffer from a long and protracted restructuring.

A long period of operations under Bankruptcy Court protection could have a material adverse effect on our business, financial condition, liquidity and results of operations. So long as the Chapter 11 Cases continue, our senior management will be required to spend a significant amount of time and effort dealing with the requirements associated with the Chapter 11 Cases instead of focusing exclusively on our business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success and stability of our business.

Additionally, so long as the Chapter 11 Cases continue, we will be required to incur significant costs for professional fees and other expenses associated with the administration of the Chapter 11 Cases. In addition, the DIP financing may not be sufficient to meet our liquidity requirements or may be restricted or ultimately terminated by the lenders under the DIP financing in accordance with the terms of the definitive documents governing such financing. If our cash flows and borrowings under the DIP financing are not sufficient to meet our liquidity requirements, our chances of successfully selling our assets as a going concern may be seriously jeopardized and the likelihood that we instead will be required to liquidate our assets on a piecemeal basis may be enhanced, further negatively impacting the value of any of our debt or equity securities.

Operating as a debtor in possession under chapter 11 of the Bankruptcy Code may restrict our ability to pursue our business strategies.

Under the Bankruptcy Code, the entry into transactions outside the ordinary course of business will be subject to the prior approval of the Bankruptcy Court, which may limit our ability to take advantage of certain opportunities. We must obtain Bankruptcy Court approval to, among other things:

- engage in certain transactions with our various stakeholders;
- buy or sell assets outside the ordinary course of business;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- borrow funds for our operations, investments or other capital needs or to engage in other business activities that would be in our best interest.

Trading in our securities during the pendency of our Chapter 11 Cases poses substantial risks and is highly speculative.

We cannot predict the extent to which holders of our convertible notes will be able to realize the full amount of their investment upon conclusion of the Chapter 11 Cases. Under anticipated recovery levels, it is not anticipated that the Company's common stock will have any value upon conclusion of the Chapter 11 Cases. Trading prices for our common stock or other securities may bear little or no relationship during the pendency of the Chapter 11 Cases to the actual recovery, if any, by the holders thereof at the conclusion of the Chapter 11 Cases. Accordingly, we urge extreme caution with respect to existing and future investments in our common stock or other securities.

The Company and certain of its U.S. subsidiaries may be unable to comply with restrictions imposed by the agreements governing the DIP financing and the Company and certain of its U.S. subsidiaries' other financing arrangements.

The agreements governing the DIP financing impose a number of restrictions on the Company and certain of its U.S. subsidiaries. Specifically, the terms of the credit agreement governing the DIP credit facilities impose certain obligations including, among other things, affirmative covenants requiring the Debtors to provide financial information, budgets and other information to the agents under the DIP credit facilities, and negative covenants restricting the Debtors' ability to incur additional indebtedness, make additional investments, grant liens, dispose of assets, pay dividends, undertake transactions with affiliates or take certain other actions, in each case except as permitted by the terms and conditions of the credit agreements governing the DIP credit facilities. The Debtors' ability to borrow under the DIP credit facilities is subject to the satisfaction of certain customary conditions precedent set forth therein.

The Company and certain of its U.S. subsidiaries' ability to comply with these provisions may be affected by events beyond their control and their failure to comply, or obtain a waiver in the event the Company and certain of its U.S. subsidiaries cannot comply with a covenant or achieve a milestone, could result in an event of default under the agreements governing the DIP financing and the Company and certain of its U.S. subsidiaries' other financing arrangements.

In certain instances, including, among other things, if we are not able to obtain confirmation of a chapter 11 plan, if current financing is insufficient, or if exit financing is not available, a chapter 11 case may be converted to a case under chapter 7 of the Bankruptcy Code, and may result in significantly smaller distributions to the Debtors' creditors than under a chapter 11 plan.

In order to conclude the Chapter 11 Cases, we must develop and obtain confirmation of a chapter 11 plan by the Bankruptcy Court. There can be no assurance that we will be able to confirm a plan. There can be no assurance that our access to liquidity, including funds available from our DIP financing, will be sufficient to fund ongoing operations.

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the Debtors, the Bankruptcy Court may convert our Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code. In such event, a chapter 7 trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in significantly smaller distributions being made to the Debtors' creditors than those provided for in a chapter 11 plan because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than selling in a controlled manner the Debtors' businesses as a going concern, (ii) additional administrative expenses involved in the appointment of a chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that may be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

Our business, financial condition, results of operations and liquidity could be negatively impacted by the loss of customers and suppliers.

As a result of the Chapter 11 Cases, we may experience collection issues with otherwise valid receivables with respect to certain customers. Adverse resolution of these disagreements may impact our revenues and other costs of services, both prospectively and retroactively. It is too soon for us to predict with any certainty the ultimate impact of these disagreements. Many of our suppliers, vendors and service providers may require stricter terms and conditions, and we may not find these terms and conditions acceptable. In addition, we may continue to experience a loss of confidence by current and prospective suppliers, customers, landlords, employees or other stakeholders, which could make it more difficult for us to operate and have a material adverse effect on our businesses, financial condition, liquidity and results of operations. Any failure to timely obtain suitable inventory at competitive prices could materially adversely affect our businesses, financial condition, liquidity and results of operations.

Our long-term liquidity requirements and the adequacy of our capital resources are difficult to predict at this time.

We face uncertainty regarding the adequacy of our liquidity and capital resources and have limited access to additional financing. In addition to the cash requirements necessary to fund ongoing operations, we have incurred significant professional fees and other costs in connection with preparation for the Chapter 11 Cases and expect that we will continue to incur significant professional fees and costs throughout our Chapter 11 Cases. In addition, we must comply with the covenants of our significant DIP financing in order to continue to access our borrowings thereunder. These covenants include, among other things, continuous and detailed financial reporting and budget requirements (including adhering to a budget subject to limited permitted variances), restrictions on transactions with affiliates, as well as general restrictions on the incurrence of debt, making additional investments, granting of liens and dispositions of assets. We cannot assure you that we will be able to comply with the covenants of our DIP financing or that cash on hand and cash flow from operations will be sufficient to continue to fund our operations and allow us to satisfy our obligations related to the Chapter 11 Cases.

Our liquidity, including our ability to meet our ongoing operational obligations, is dependent upon, among other things: (i) our ability to comply with the terms and conditions of our DIP financing agreements, (ii) our ability to comply with the terms and conditions of any cash collateral order that may be entered by the Bankruptcy Court in connection with the Chapter 11 Cases, (iii) our ability to maintain adequate cash on hand, (iv) our ability to generate cash flow from operations, (v) our ability to develop, confirm and consummate a chapter 11 plan or other alternative restructuring transaction, and (vi) the cost, duration and outcome of the Chapter 11 Cases.

The Chapter 11 Cases limit the flexibility of our management team in running our business.

While we operate our businesses as debtors-in-possession under supervision by the Bankruptcy Court, we are required to obtain the approval of the Bankruptcy Court and, in some cases, certain lenders prior to engaging in activities or transactions outside the ordinary course of business. Bankruptcy Court approval of non-ordinary course activities entails preparation and filing of appropriate motions with the Bankruptcy Court, negotiation with a committee of unsecured creditors and other parties-in-interest and one or more hearings. A creditors' committee and other parties-in-interest may be heard at any Bankruptcy Court hearing and may raise objections with respect to these motions. This process may delay major transactions and limit our ability to respond quickly to opportunities and events in the marketplace. Furthermore, in the event the Bankruptcy Court does not approve a proposed activity or transaction, we would be prevented from engaging in activities and transactions that we believe are beneficial to us.

Adverse publicity in connection with the Chapter 11 Cases or otherwise could negatively affect our businesses.

Adverse publicity or news coverage relating to us, including, but not limited to, publicity or news coverage in connection with the Chapter 11 Cases, may negatively impact operations, liquidity and financial condition.

We may not have sufficient cash to maintain our operations during the Chapter 11 Cases.

Because of our financial condition, we will have heightened exposure to, and less ability to withstand, the operating risks that are customary in our industry. Any of these factors could result in the need for substantial additional funding. A number of other factors, including our Chapter 11 Cases, our financial results in recent years, our substantial indebtedness and the competitive environment we face, materially adversely affect the availability and terms of funding that might be available to us during the Chapter 11 Cases. As a result, we may not be able to source capital at rates acceptable to us, or at all, to fund our current operations outside of the anticipated DIP financing. The inability to obtain necessary additional funding on acceptable terms could have a material adverse impact on us and on our ability to sustain our operations and/or sell our assets as a going concern.

Transfers of our equity and issuances of equity in connection with the Chapter 11 Cases may impair our ability to utilize our federal income tax net operating loss carryforwards in future years.

Under federal income tax law, a corporation is generally permitted to deduct from taxable income net operating losses carried forward from prior years. Our ability to utilize net operating loss carryforwards to offset future taxable income and to reduce federal income tax liability is subject to certain requirements and restrictions. If we experience an “ownership change,” as defined in section 382 of the U.S. Internal Revenue Code, then our ability to use net operating loss carryforwards and other tax attributes may be substantially limited, which could have a negative impact on our financial position and results of operations. Generally, there is an “ownership change” if one or more shareholders owning 5% or more of a corporation’s common stock have aggregate increases in their ownership of such stock of more than 50 percentage points over the prior three-year period. While not currently expected, following the implementation of a plan of reorganization in the Chapter 11 Cases, we may experience an “ownership change.” Under section 382 of the U.S. Internal Revenue Code, absent an application exception, if a corporation undergoes an “ownership change,” the amount of its net operating losses that may be utilized to offset future taxable income generally is subject to an annual limitation on the amount of federal income tax net operating loss carry-forwards existing prior to the change that it could utilize to offset its taxable income in any future taxable year to an amount generally equal to the value of its stock immediately prior to the ownership change multiplied by the long-term tax-exempt rate, subject to adjustments to reflect the differences between the fair market value of the corporation’s assets and the tax basis in such assets.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Bankruptcy Filing

On February 19, 2019, the Company and certain of its U.S. subsidiaries (collectively with the Company, the “Debtors”) each filed a voluntary petition for relief (the “Bankruptcy Filing”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of New Jersey (the “Bankruptcy Court”). The Debtors have proposed to jointly administer their chapter 11 cases under the caption In re Aceto Corporation, et al. (the “Chapter 11 Case”). All documents filed with the Bankruptcy Court are available for inspection at the Office of the Clerk of the Bankruptcy Court or online at www.primeclerk.com.

Each of the Debtors remains in possession of its respective assets and will continue to operate its respective business as a “debtor-in-possession” under the jurisdiction of the Bankruptcy Court, and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

The Debtors have filed a series of “first day” motions, including motions for entry of orders authorizing the Debtors to obtain secured postpetition financing; to continue paying employee wages, salaries and benefit programs; to continue their cash management system; to continue customer programs; and to obtain other relief intended to assure the Debtors’ ability to continue ordinary course operations.

The Debtors currently intend to seek the approval of the Bankruptcy Court of one or more sales of substantially all of their assets under section 363 of the Bankruptcy Code.

Asset Purchase Agreement

On February 18, 2019, the Company and certain of its U.S. subsidiaries (collectively, the “Sellers”) entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with NMC Atlas, L.P., a Delaware limited partnership (the “Buyer”), an affiliate of New Mountain Capital, L.L.C., pursuant to which the Buyer agreed to acquire substantially all of the assets and assume certain liabilities of the Company’s Chemicals Plus Business for an aggregate purchase price of $338,000 in cash plus the assumption of certain liabilities (as set forth in the Asset Purchase Agreement), subject to adjustments for net current assets at closing.

The Asset Purchase Agreement is intended to constitute a “stalking horse” bid that is subject to higher and better bids by third parties in accordance with bidding procedures to be approved by the Bankruptcy Court. The Asset Purchase Agreement provides for the payment of a termination fee of $6,760, and reimbursement of Buyer’s expenses up to $2,000, in the event that the Asset Purchase Agreement is replaced by a higher and better bid.

Pursuant to the Asset Purchase Agreement, the Buyer has deposited $33,800 into escrow as a good faith deposit. The good faith deposit will be applied to the purchase price at closing or retained by the Sellers in the event the Asset Purchase Agreement is terminated due to certain breaches of the Asset Purchase Agreement by Buyer or returned to Buyer if the Asset Purchase Agreement is terminated for other reasons.

The Sellers and the Buyer have made customary representations, warranties and covenants in the Asset Purchase Agreement. The closing of the transactions contemplated by the Asset Purchase Agreement is subject to the satisfaction or waiver of a number of closing conditions, including the receipt of customary regulatory approvals and the entry of a sale order by the Bankruptcy Court approving the sale as provided in the Asset Purchase Agreement.

The foregoing description of the Asset Purchase Agreement is not complete and is qualified in its entirety by reference to the Asset Purchase Agreement which is attached as Exhibit 10.2 hereto and is incorporated herein by reference.

Debtor-In-Possession Financing

In connection with the Chapter 11 Cases, the Company and certain of its U.S. subsidiaries (collectively, the “DIP Borrowers”) will enter into a Senior Secured, Priming and Superprioity Debtor-in-Possession Credit Agreement (the “DIP Credit Agreement”) with the lenders party thereto from time to time (the “DIP Lenders”) and Wells Fargo Bank, National Association, as administrative agent for the DIP Lenders (the “DIP Administrative Agent”) The DIP Credit Agreement is subject to approval of the Bankruptcy Court and will become effective upon, in addition to other customary closing conditions, the entry of the Interim Order (as defined in the DIP Credit Agreement). The DIP Credit Agreement provides for a $60,000 debtor-in-possession revolving credit facility (the “DIP Facility”). In accordance with the terms of the DIP Credit Agreement, a portion of the DIP Facility will be used to refinance up to $23,000 of outstanding revolving bridge loans along with additional revolving loans held by DIP Lenders under the Company’s prepetition credit agreement outstanding on the Effective Date. In addition, the DIP Borrowers will use the proceeds of the DIP Facility for the following purposes: (i) to finance the expenses of the DIP Borrowers, including ordinary course operating expenses related to the Chapter 11 Cases and professional fees and expenses set forth in an approved budget, which shall be in form and substance reasonably satisfactory to the DIP Administrative Agent, as updated by monthly supplementary forecasts to be delivered by the DIP Borrowers and that have been approved by the DIP Administrative Agent and (ii) to make adequate protection payments to its prepetition secured lenders and agents in connection with the use of their collateral.

Pursuant to the terms of the DIP Credit Agreement, interest will accrue on the principal balance of the DIP Loans at a rate per annum equal to (a) LIBOR for such interest period plus 7.00% in respect of Eurodollar Loans (as defined in the DIP Credit Agreement) and (b) the alternate base rate plus 6.00% in respect of ABR Borrowings (as defined in the DIP Credit Agreement). The DIP Facility is subject to certain customary representations, warranties, covenants and events of default, and the DIP Lenders’ obligations to fund are contingent upon the satisfaction of certain conditions, including, without limitation, the entry of the Interim DIP Order and final order (the “Final DIP Order”) by the Bankruptcy Court approving the DIP Facility and its terms (collectively, the “DIP Orders”).

Further, until the DIP Facility is paid in full, 100% of the net proceeds received in connection with the Asset Purchase Agreement must be used to prepay the DIP Facility.

The DIP Facility will mature and shall be paid in full, on the earliest of the following: (i) June 7, 2019 (which date may be extended for 30 days in accordance with the DIP Credit Agreement), (ii) 40 days after entry of the Interim DIP Order if the Final DIP Order has not been entered prior to such date; (iii) the close of the sale of the DIP Borrowers’ Chemicals Plus Business; and (iv) the acceleration of the maturity of the DIP Facility after the occurrence and during the continuance of an event of default under the DIP Credit Agreement.

Subject to entry of the DIP Orders, the DIP Credit Agreement will become effective and the DIP Borrowers' obligations under the DIP Credit Agreement will be secured by, among other things, first priority, priming security interests in substantially all of the DIP Borrowers' assets, subject only to certain carve-outs and permitted exceptions, as set forth in the DIP Credit Agreement and DIP Orders.

Executive Compensatory Arrangements

William C. Kennally, III

On February 14, 2019, we entered into a Key Executive Incentive Agreement (the "Key Executive Agreement") with William Kennally, III, our President and Chief Executive Officer. The Key Executive Agreement is designed to incentivize Mr. Kennally to maximize the value of our assets and to ensure optimum recovery for all of our stakeholders. The total potential award opportunity for Mr. Kennally under the Key Executive Agreement is $800 (the "Bonus").

Under the Key Executive Agreement, Mr. Kennally was entitled to receive the Bonus upon the receipt of a binding offer for the purchase of the assets of either the Chemicals Plus Business or the Pharma Business, which would be subject to higher or otherwise better offers under the supervision of the Bankruptcy Court and subject to the terms of Bankruptcy Court order (a “Stalking Horse Bid”) prior to March 15, 2019. A Stalking Horse Bid was timely received, and accordingly, the Bonus was paid to Mr. Kennally on February 14, 2019.

Mr. Kennally is obligated to repay 100% of the Bonus if his employment with the Company terminates, for any reason other than by the Company without cause or as a result of his death or disability, prior to the earliest of (i) the consummation of a sale or reorganization of both the Pharma Business and the Chemicals Plus Business, (ii) the dismissal or conversion of the Bankruptcy Cases, if any, or (iii) September 13, 2019.

Steven Rogers

On February 14, 2019, we also entered into a letter agreement (the “Retention Bonus Amendment”) with Steven Rogers, our Senior Vice President and Chief Legal Officer, amending the Retention Bonus Agreement between us and Mr. Rogers, dated May 21, 2018 (the “Original Retention Agreement”). The Retention Bonus Amendment is also designed to incentivize Mr. Rogers to maximize the value of our assets and to ensure optimum recovery for all of our stakeholders.

Under the terms of the Original Retention Agreement, the $620.10 of Mr. Rogers’ retention bonus which remained unpaid as of February 11, 2019 (the “Balance”), was payable in connection with the earlier of (i) the consummation of a change of control transaction or (ii) September 13, 2019, subject to the terms and conditions of the Original Retention Agreement. Pursuant to the Retention Bonus Amendment, Mr. Rogers was entitled to receive the Balance upon the earlier of (x) a payment event under the Original Retention Agreement or (y) the receipt of a Stalking Horse Bid prior to March 15, 2019. A Stalking Horse Bid was timely received and accordingly, the Balance was paid to Mr. Rogers on February 14, 2019.

Mr. Rogers is obligated to repay 100% of the Bonus if his employment with the Company terminates, for any reason other than by the Company without cause or as result of his death or disability, prior to the earliest of (i) the consummation of a sale or reorganization of both the Pharma Business and the Chemicals Plus Business, (ii) the dismissal or conversion of the Bankruptcy Case, if any, or (iii) September 13, 2019. Additionally, if Mr. Rogers’ employment terminates, for any reason, prior to the date the Balance would have been paid absent the Retention Bonus Amendment, Mr. Rogers is obligated to repay the difference between (x) the Balance and (y) the portion of the Balance he would have been paid had his employment not terminated, if any, as determined by our Compensation Committee in its good faith discretion.

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The descriptions of the Key Executive Agreement and the Retention Bonus Amendment are not complete and are qualified in their entirety by reference to the Key Executive Agreement and the Retention Bonus Amendment filed as Exhibits 10.3 and 10.4, respectively, hereto and are incorporated herein by reference.

NASDAQ Notification of Delinquent Filing

On February 12, 2019, the Company filed with the SEC a report on Form 12b-25 advising the SEC that the Company would be late in filing this Quarterly Report on Form 10-Q which was due on February 11, 2019. The report on Form 12b-25 did not specify when this Quarterly Report on Form 10-Q would be filed. Since the report on Form 12b-25 did not indicate that the Company would file its Quarterly Report on Form 10-Q within the five day period permitted by Rule 12b-25 (which period ended on February 19, 2019), on February 13, 2019, the Company received a notification from the Nasdaq Stock Market ("Nasdaq") informing the Company that since it had not yet filed its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2018 (the "Quarterly Report"), the Company was not in compliance with Nasdaq Listing Rule 5250(c)(1) (the "Listing Rule"). The Listing Rule requires listed companies to timely file all required periodic financial reports with the SEC. The Nasdaq notification letter specifies that the Company has 60 calendar days, or until April 14, 2019, to submit a plan to regain compliance with the Listing Rule. If Nasdaq accepts the plan from the Company, Nasdaq can grant an exception of up to 180 calendar days from the Quarterly Report's due date, or until August 12, 2019, to regain compliance.

Item 6. Exhibits

10.1	Fourth Amendment and Limited Waiver to Second Amended and Restated Credit Agreement, dated as of January 8, 2019.
10.2	Asset Purchase Agreement by and among Aceto Corporation, Aceto Agricultural Chemicals Corporation, Aceto Realty LLC and NMC Atlas, L.P., dated February 18, 2019.
10.3	Amendment No. 1, dated February 14, 2019 to the Retention Bonus Agreement, dated May 21, 2018, by and between Aceto Corporation and Steven Rogers.
10.4	Key Executive Incentive Agreement, by and between Aceto Corporation and William C. Kennally, III, dated February 14, 2019.
15.1	Letter from BDO USA, LLP regarding unaudited interim financial information
31.1	

Certifications of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certifications of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1** Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2** Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**Furnished, not filed

SIGNATURES

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

ACETO CORPORATION

DATE	February 20, 2019	BY	/s/ William C. Kennally, III William C. Kennally, III, President and Chief Executive Officer (Principal Executive Officer)
DATE	February 20, 2019	BY	/s/ Rebecca Roof Rebecca Roof, Chief Financial Officer (Principal Financial Officer)

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