ACETO CORP
Form 10-K
September 28, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 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)

(516) 627-6000

(Registrant's telephone number, including area code)

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

Common Stock, par value $.01 per share	The NASDAQ Global Select Market
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.

Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting 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 aggregate market value of the voting stock of the Company held by non-affiliates of the Company based on the closing price of the common stock on December 29, 2017 as reported on the NASDAQ Global Select Market was approximately $267,428,195.

The Registrant has 30,787,241 shares of common stock outstanding as of September 13, 2018.

Documents incorporated by reference: The information required in response to Part III of this Annual Report on Form 10-K is hereby incorporated by reference to the specified portions of the Registrant’s definitive proxy statement for the annual meeting of shareholders.

ACETO CORPORATION AND SUBSIDIARIES

FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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PART I

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

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

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 Annual Report on Form 10-K, all dollar amounts are expressed in thousands, except share prices and per-share amounts.

Item 1. Business

General

Aceto Corporation, together with its consolidated subsidiaries, are referred to herein collectively as “Aceto”, “the Company”, “we”, “us”, and “our”, unless the context indicates otherwise. Aceto was incorporated in 1947 in the State of New York. We are an international company engaged in the development, marketing, sales and distribution of finished dosage form generic pharmaceuticals, nutraceutical products, pharmaceutical active ingredients and intermediates, specialty performance chemicals inclusive of agricultural intermediates and agricultural protection products. Our business is organized along product lines into three principal segments: Human Health, Pharmaceutical Ingredients and Performance Chemicals.

We believe our main business strengths are sourcing, regulatory support, quality assurance and marketing and distribution. Aceto functions as a virtual manufacturing company, distributing 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. One supplier accounted for 39% of purchases in fiscal 2018 and 16% in 2017.

Strategic relationships with manufacturers of pharmaceutical, nutraceutical, agricultural and specialty chemical products in the United States and internationally serve as a valuable resource to Aceto customers, enabling them to procure vital chemical based products necessary for their diverse and complex applications. A strong global technical network differentiates Aceto from commodity distribution companies. With regional managers in the United States, Europe and Asia, we provide regulatory support and quality assurance for customers and suppliers worldwide. Our regulatory network ensures that all products we distribute are produced to applicable required standards and conform to customer specifications for their intended end use.

Our presence in China, Germany, France, The Netherlands, Singapore, India, Hong Kong, Philippines, the United Kingdom and the United States, along with strategically located warehouses worldwide, enable us to respond quickly to demands from customers worldwide, assuring that a consistent, high-quality supply of pharmaceutical, nutraceutical, specialty chemicals and agricultural protection products are readily accessible. We are able to offer our customers competitive pricing, continuity of supply, and quality control. Highly experienced staff, approximately one-third of whom are technically trained, enable Aceto to meet individual customer needs. Our marketing, sales, regulatory and technical professionals possess an intimate knowledge of worldwide sources of supply and product applications, as well as statutory and technical requirements. Many of our professionals are respected leaders in their industry, bringing 25 or more years of experience to customer applications. This longevity has fostered confidence and loyalty among customers and suppliers.

Aceto partners with customers during the product development process, creating new applications for existing products, as well as new product sourcing opportunities. We offer solutions for product and production challenges, while assisting with quality assurance, government approvals and compliance. All of these value-added services allow Aceto's customers to be more responsive to their end use customers and more competitive in the global marketplace. We believe our 70 years of experience, our reputation for reliability and stability, and our long-term relationships with suppliers have fostered loyalty among our customers.

Other than product rights and license agreements for certain of our finished dosage form generic products which are part of our Human Health business and U.S. Environmental Protection Agency (EPA) registrations for our Performance Chemicals, we hold no patents, franchises or concessions that we consider material to our operations.

Information concerning revenue and gross profit attributable to each of our reportable segments and geographic information is found in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in Note 19 to the Consolidated Financial Statements, Part II, Item 8, "Financial Statements and Supplementary Data."

Developments

As previously disclosed:

- During the third quarter of fiscal 2018, the Company's Rising Pharmaceuticals reporting unit had a decline in actual and forecasted revenue and earnings due to the persistent adverse conditions in the generics market, including continued pricing pressure, intense competition, related consolidation of customers and softer than expected contributions from new product launches. In addition, in February 2018, the Company was notified by the U.S. government that 11 generic drug products it acquired in its December 2016 purchase of assets from Citron Pharma LLC and Lucid Pharma LLC were not in compliance with the federal Trade Agreement Act country-of-origin provisions of a clause contained in government supply contracts acquired as part of that transaction. While the government's determination was subsequently reversed on appeal, in order to avoid certain financial penalties, the Company entered into agreements with the government that provided for a no-cost termination of 11 supply contracts. Based on the afore-mentioned indicators, the Company determined that it was necessary to perform an interim goodwill impairment analysis at March 31, 2018 for its Rising reporting unit. Accordingly, 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.

- As of March 31, 2018, the Company was not in compliance with two of its financial covenants under its credit facility, the maximum total net leverage ratio and the minimum debt service coverage ratio. On May 3, 2018, the

Company entered into a Second Amendment and Waiver to the Second Amended and Restated Credit Agreement (the "May 2018 Amendment"). The May 2018 Amendment, among other things, contained a waiver of any event of default under the Company's credit agreement arising as a result of the non-compliance by the Company with the total net leverage ratio and debt service coverage ratio financial covenants, in each case, solely for the fiscal quarter ended March 31, 2018. The May 2018 Amendment also contained several amendments to the Company's credit agreement including, among other things, (a) reducing the available revolving commitment thereunder, (b) restricting the payment of dividends and (c) restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

- The Company has incurred substantial expenses to address the issues that led to the impairment charges taken as of March 31, 2018. 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. The Company is also paying a flat monthly fee of $250 for the services of its interim chief financial officer, Rebecca Roof.

- As referenced in the Company's press release issued April 18, 2018, the Board of Directors has initiated a process to identify and evaluate a range of strategic alternatives. Strategic alternatives that have been or are being considered include the sale of a key business segment(s), a merger or other business combination with another party, continuing as a standalone entity or other potential alternatives. That process is ongoing. However, there can be no assurance that the strategic review process will result in any transaction.

While the Company has taken substantial steps to address the challenges confronting its business, the persistent adverse conditions in the generics market have continued. As a result, as of June 30, 2018, the Company was not in compliance with the total net leverage ratio, senior secured net leverage ratio and debt service coverage ratio financial covenants in its credit facility. With the assistance of its financial and legal advisors and through active negotiations with its secured lenders, the Company has entered into a Third Amendment and Limited Waiver, dated as of September 11, 2018 (the "September 2018 Amendment"), to the Second Amended and Restated Credit Agreement (the "A&R Credit Agreement"). The September 2018 Amendment provides 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 under the A&R Credit Agreement 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 under the A&R Credit Agreement to the highest level provided under the A&R Credit Agreement, which is currently 6.00% in the case of ABR Loans (as defined in the A&R Credit Agreement) and 7.00% in the case of Eurodollar Loans (as defined in the A&R Credit Agreement), (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 (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 (as defined in the A&R Credit Agreement) ("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 defined in the A&R Credit Agreement) as a condition precedent to the lenders extending any Loans (as defined in the A&R Credit Agreement) or the issuing banks issuing, amending, renewing or extending any Letter of Credit (as defined in the A&R Credit Agreement), (e) permitting the purchase, during fiscal year 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.

As more fully described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates and Policies – Taxes and in Notes 12 and 20 to the Company's Consolidated Financial Statements, the Company (i) has recorded in its year-end financial statements a $76,500 valuation allowance against its U.S. net deferred tax assets for the year ended June 30, 2018, (ii) has determined that $71,350 of this non-cash charge should have been recognized in the third quarter of fiscal 2018, rather than in the fourth quarter of fiscal 2018 and (iii) accordingly will amend its most recently filed Quarterly Report on Form 10-Q to restate its third quarter and nine month consolidated financial statements to reflect this charge as a third quarter event.

We remain confident in our underlying businesses. Our business units are positioned for organic growth through the introduction of new products for finished dosage form generic drugs, the further globalization of our nutraceutical business, the continued globalization of our Performance Chemicals business, the expansion of our agricultural protection products, the continued enhancement of our sourcing operations in China and India, our demonstrated ability to form alliances with product development partners and the continuing improvement of our quality assurance and regulatory capabilities. Our business has been impacted by the extent of our debt load relative to our operating results. If we are able to reduce the extent of the leverage meaningfully, our overall performance could improve. If we are not able to reduce that leverage meaningfully, there can be no assurance that we will be able to comply with the financial covenants under our credit facility for quarters (beginning with the quarter ending September 30, 2019) after the quarters covered by the covenant waiver included in the September 2018 Amendment.

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).

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

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

As noted above, during the third quarter of fiscal 2018, the Company's Rising Pharmaceuticals reporting unit had a decline in actual and forecasted revenue and earnings due to the persistent adverse conditions in the generics market. As a result of this decline and the actions taken by the government resulting in the no-cost termination of 11 government supply contracts, the Company determined that it was necessary to perform an interim goodwill impairment analysis at March 31, 2018 for its Rising reporting unit. Accordingly, 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.

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.

Based on a report issued by IQVIA Institute on March 13, 2018, "real net per capita spending on medicines in the United States will decline in 2018 and continue almost unchanged at almost $800 per person through 2022."

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 July 17, 2018 Federal Reserve Statistical Release, in the second quarter of calendar year 2018, the index for consumer durables, which impacts the Specialty Chemicals business of the Performance Chemicals segment, is expected to decrease at an annual rate of 4.0%.

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 will 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.

Research and Development Expenses

Research and development expenses (R&D) represent investment in our generic finished dosage form product pipeline. R&D expenses during fiscal years 2018, 2017 and 2016 were $7,933, $7,898 and $7,937 respectively.

Long-lived Assets

Long-lived assets, excluding property held for sale, by geographic region as of June 30, 2018, 2017 and 2016 were as follows:

	Long-lived assets		
	2018	**2017**	**2016**
United States	$246,073	$528,359	$152,701
Europe	3,192	2,538	2,504
Asia-Pacific	1,400	1,582	1,781
Total	$250,665	$532,479	$156,986

Suppliers and Customers

We will only purchase products from specifically approved plants that meet strict guidelines for quality. We regularly visit our suppliers to evaluate them not only on the basis of ability to deliver satisfactory products on a timely and cost efficient basis, but also on quality system, facilities and equipment system, materials system, production system, packaging and labeling system, and laboratory control system. During the fiscal years ended June 30, 2018 and 2017 approximately 61% and 62%, respectively, of our purchases were from Asia and approximately 15% and 17%, respectively, were from Europe.

Our customers are primarily located throughout the United States, Europe and Asia. We will continue our program of regular visits to our suppliers' plants, and will continue to educate them on the quality of product and service required by our customers. Aceto is uniquely able to do this, as many of our sales representatives are technically trained (chemists, chemical engineers, biologists, pharmacologists, etc.) most with in-plant or industrial laboratory experience that allows them to effectively communicate customer requirements to sourcing teams. Our customers include a wide range of companies in the industrial chemical, agricultural, and human health and pharmaceutical industries, and range from small trading companies to Fortune 500 companies. During fiscal years 2018, 2017 and 2016, sales made to customers in the United States totaled $512,800, $465,879 and $380,533, respectively. Sales made to customers outside the United States during fiscal years 2018, 2017 and 2016 totaled $198,559, $172,439 and $177,991, respectively, of which, approximately 59%, 56% and 56%, respectively, were to customers located in Europe. One customer (AmerisourceBergen Corporation) accounted for 16% of net sales in fiscal 2018, 12% of net sales in 2017 and 14% of net sales in fiscal 2016. Another customer (McKesson Corporation) accounted for 11% of net sales in fiscal 2018, 11% of net sales in 2017 and 7% of net sales in 2016. No single product accounted for as much as 10% of net sales in fiscal 2018, 2017 or 2016.

Competition

The Company operates in a highly competitive business environment. We compete by offering high-quality products produced around the world by both large and small manufacturers at attractive prices. Because of our long standing relationships with many suppliers as well as our sourcing operations in both China and India, we are able to ensure that any given product is manufactured at a facility that can meet the regulatory requirements for that product. For the most part, we store our inventory of chemical-based products in public warehouses strategically located throughout the United States, Europe, and Asia, and we can therefore fill our customer orders on a timely basis. We have developed ready access to key purchasing, research, and technical executives of our customers and suppliers. This allows us to ensure that when necessary, sourcing decisions can be made quickly. We will also continue to search for new products, as well as for new sources for products where we feel our existing sources have lapsed in either product or delivery quality, and/or have failed to meet the needs of our customers or markets.

Environmental and Regulatory

We are subject to extensive regulation by federal, state and local agencies in the countries in which we do business. Of particular importance is the FDA in the U.S. It has jurisdiction over testing, safety, effectiveness, manufacturing, labeling, marketing, advertising and post-marketing surveillance of our Human Health products.

Certain of our products involve the use, storage and transportation of toxic and hazardous materials. The Company's operations are subject to extensive laws and regulations relating to the storage, handling, transportation and discharge of materials into the environment and the maintenance of safe working conditions. We have designed safety

procedures to comply with the standards prescribed by federal, state and local regulations. We promote the use of environmentally friendly recyclable packaging by our suppliers. We endeavor to meet our customers' packaging requirements. We only use warehouses and carriers approved to handle chemicals and that have appropriate permits and licenses. We will endeavor to ensure that each package of each shipment has correct labels and supplier lot numbers, and is in compliance with safety and environmental laws.

Our global quality assurance network, with regional managers in the U.S., Europe and Asia, seeks to ensure that the quality of a product meets both its specifications and intended use. Our technical network performs a service that allows Aceto to source and qualify APIs, pharmaceutical intermediates, finished dosage form generics, agricultural products, specialty chemicals, and nutraceutical products from around the world. It also provides substantial regulatory support and technical assistance to manufacturers worldwide, enabling them to meet the stringent regulatory guidelines that govern the pharmaceutical, nutraceutical, specialty chemicals and agricultural protection industries.

In connection with our generics business, the Drug Quality and Security Act (DQSA), which was enacted by Congress on November 27, 2013, outlines steps to build an electronic, interoperable system to identify and trace certain prescription drugs as they are distributed in the United States. This will enhance the FDA’s ability to help protect consumers from exposure to drugs that may be counterfeit, stolen, contaminated, or otherwise harmful. The system will also improve the detection and removal of potentially dangerous drugs from the drug supply chain to protect U.S. consumers. The deadline for us to be compliant with this new system is November 27, 2018 and we expect to be compliant by then.

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 connection with the 2016 acquisition of certain products and related assets by Aceto from Lucid, the government contracting business of Citron, Aceto acquired through the government's novation process Lucid's government contracts.

In February 2018, we were notified by the U.S. government that 11 generic drug products we acquired through our Acetris Health subsidiary in a product purchase agreement with Lucid are not in compliance with the federal Trade Agreement Act ("TAA") country-of-origin provisions of a clause (referred to below as 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 the Company's Acetris Health subsidiary 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's interpretation of the Trade Agreements Clause, which had resulted in the termination of the 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 the DoD with its products. The government has appealed the Court's decision. 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. While Acetris may seek new contracts with these agencies, no assurance can be given that any such contracts will be awarded.

Employees

At June 30, 2018, we had 315 employees, none of whom were covered by a collective bargaining agreement.

Available information

We file annual, quarterly, and current reports, proxy statements, and other information with the U.S. Securities and Exchange Commission ("SEC"). You may read and copy any document we file at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549.

You may call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly, and current reports, proxy statements, and other information that issuers (including Aceto) file electronically with the SEC. The SEC's website is www.sec.gov.

Our website is www.aceto.com. We make available free of charge through our Internet site, via a link to the SEC's website at www.sec.gov, our annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; Forms 3, 4 and 5 filed on behalf of our directors and executive officers; and any amendments to those reports and forms. We make these filings available as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information on our website is not incorporated by reference into this Annual Report on Form 10-K.

Item 1A. Risk Factors

You should carefully consider the following risk factors and other information included in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial could also impair our business operations. If any of the following risk factors occur, our reputation, business, financial condition, operating results and cash flows could be materially adversely affected.

Our credit facility, as amended by the September 2018 Amendment, contains several restrictive covenants that limit our corporate activities.

At June 30, 2018, we had $62,000 of revolving bank loans outstanding and $127,500 outstanding in a bank term loan, all subject to a secured credit facility. As was the case at March 31, 2018, we did not satisfy certain financial covenants under this facility as of June 30, 2018. In response, as discussed under Part II, Item 7 - *Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*", we entered into an amendment (referred to herein as the September 2018 Amendment) to our credit facility to respond to and resolve our covenant non-compliance. The terms of our credit facility, as amended by the September 2018 Amendment, require us to meet certain financial covenants, contain other affirmative covenants and reference multiple potential events of default, including payment defaults and covenant defaults. The credit facility, as amended by the September 2018 Amendment, also contains certain negative covenants, including covenants that restrict our ability, and that of our subsidiaries, to engage in certain transactions and may impair our ability to respond to changing business and economic conditions. Among the restrictions imposed by the September 2018 Amendment, we have agreed to: (a) a restriction 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 under the A&R Credit Agreement by 450 basis points and fixing (during the September 2018 Amendment Limitation Period) the applicable margin with respect to the interest rate on all loans under the A&R Credit Agreement 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 September 2018 Amendment Limitation Period, requiring the Company to maintain the sum of Domestic Liquidity plus Foreign Liquidity and the undrawn portion of the Revolving Commitment (referred to herein as "Covenant Liquidity") to an amount of at least $55,000 (referred to herein as 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 and (e) restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions. The September 2018 Amendment does permit the purchase, during fiscal year 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.

Even if we are able to meet our enhanced obligations, the amount of debt we have could adversely affect us by limiting our ability to obtain any necessary financing in the future for working capital, dividend payments, capital expenditures, debt service requirements, or other purposes. It also places us at a disadvantage relative to our competitors who have lower levels of debt, while making us more vulnerable to a downturn in our business or the economy in general. It also requires us to use a substantial portion of our cash to pay principal and interest on our debt, instead of investing those funds in the business.

The material impairment charge that we recorded in fiscal 2018 was based on several adverse factors, certain of which could materially adversely impact the Company in subsequent fiscal quarters.

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 could continue to impact us in future fiscal periods. Such factors could materially and adversely impact our business, financial condition, results of operations, liquidity and cash flows and could lead to additional impairment charges in the future.

If we are unable to compete effectively with our competitors, many of which have greater market presence and resources than us, our reputation, business, financial condition, operating results, cash flows and liquidity could be materially adversely affected.

Our financial condition and operating results are directly related to our ability to compete in the intensely competitive global pharmaceutical and chemical markets. We face intense competition from global and regional distributors of pharmaceutical and chemical products, many of which are large pharmaceutical and chemical manufacturers as well as distributors. Many of these companies have substantially greater resources than us, including, among other things, greater financial, marketing and distribution resources. We cannot assure you that we will be able to compete successfully with any of these companies. In addition, increased competition could result in price reductions, reduced margins and loss of market share for our products, all of which could materially adversely affect our reputation, business, financial condition, operating results and cash flows.

Our distribution operations of finished dosage form generic drugs and APIs are subject to the risks of the generic pharmaceutical industry.

The ability of our business to generate consistent growth is affected, in large part, by our participation in the launch of new products by generic manufacturers and the subsequent advent and extent of competition encountered by these products. Revenues and gross profit derived from the sales of generic pharmaceutical products tend to follow a pattern based on certain regulatory and competitive factors. This competition can result in significant and rapid declines in pricing with a corresponding decrease in net sales. Net selling prices of generic drugs typically decline over time, sometimes dramatically, as additional generic pharmaceutical companies receive approvals and enter the market for a given generic product and competition intensifies. When additional versions of one of our generic products enter the market, we generally lose market share and our selling prices and margins on that product decline. The generic pharmaceutical industry has experienced continued pricing pressure, intense competition and customer consolidation that may continue to materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

The approval process for generic pharmaceutical products often results in the FDA granting final approval simultaneously or within close proximity to a number of generic pharmaceutical products at the time a patent claim for a corresponding branded product or other market exclusivity expires. This often forces a generic firm to face immediate competition when it introduces a generic product into the market. Additionally, further generic approvals often continue to be granted for a given product subsequent to the initial launch of the generic product. These circumstances generally result in significantly lower prices, as well as reduced margins, for generic products compared to branded products. New generic market entrants generally cause continued price and margin erosion over the generic product life cycle. As a result, we could be unable to grow or maintain market share with respect to our generic pharmaceutical products, which could materially adversely affect our reputation, business, financial condition, operating results, cash flows and liquidity.

We may experience declines in sales volumes or prices of certain of our products as the result of the concentration of sales to wholesalers and the continuing trend towards consolidation of such wholesalers and other customer groups which could have a material adverse impact on our business, financial condition, operating results, cash flows and liquidity.

Wholesalers and retail drug chains have in recent years seen increased consolidation, resulting in larger competitors and placing further pressure on prices, development activities and customer retention. This consolidation may result in these groups gaining additional purchasing leverage and consequently increasing the product pricing pressures facing our finished dosage form generic business. The result of these developments could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Our pipeline of products in development may be subject to regulatory delays at the FDA. Delays in key products could have material adverse effects on our reputation, business, financial condition, operating results, cash flows and liquidity.

Our future revenue growth and profitability are partially dependent upon our ability to introduce new products on a timely basis in relation to our competitors' product introductions. Our failure to do so successfully could materially adversely affect our reputation, business, financial condition, operating results, cash flows and liquidity. Many products require FDA approval or the equivalent regulatory approvals in our overseas markets prior to being marketed. The process of obtaining FDA/regulatory approval to market new and generic pharmaceutical products is rigorous, time-consuming, costly and often unpredictable. We may be unable to obtain requisite FDA approvals on a timely basis for new generic products.

Pharmaceutical product quality standards are steadily increasing and all products, including those already approved, may need to meet current standards. If our products are not able to meet these standards, we may be required to discontinue marketing and/or recall such products from the market.

Steadily increasing quality standards are applicable to pharmaceutical products still under development and those already approved and on the market. These standards result from product quality initiatives implemented by the FDA, and updated U.S. Pharmacopeial Convention ("USP") Reference Standards. The USP is a scientific nonprofit organization that sets standards for the identity, strength, quality, and purity of medicines, food ingredients, and dietary supplements manufactured, distributed, and consumed worldwide. Pharmaceutical products approved prior to the implementation of new quality standards may not meet these standards, which could require us to discontinue marketing and/or recall such products from the market, either of which could have a material adverse effect on our business, financial position, results of operations and cash flows.

If brand pharmaceutical companies are successful in limiting the use of generics through their legislative and regulatory efforts, our sales of generic products may suffer.

Many brand pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

- pursuing new patents for existing products which may be granted just before the expiration of one patent which could extend patent protection for additional years or otherwise delay the launch of generics;
- using the Citizen Petition process to request amendments to FDA standards;
- seeking changes to U.S. Pharmacopoeia, an organization which publishes industry recognized compendia of drug standards;
- attaching patent extension amendments to non-related federal legislation;
- engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing;
- persuading regulatory bodies to withdraw the approval of brand name drugs for which the patents are about to expire and converting the market to another product of the brand company on which longer patent protection exists;
- entering into agreements whereby other generic companies will begin to market an authorized generic, a generic equivalent of a branded product, at the same time or after generic competition initially enters the market;
- filing suits for patent infringement and other claims that may delay or prevent regulatory approval, manufacture, and/or sale of generic products; and,
- introducing "next-generation" products prior to the expiration of market exclusivity for the reference product, which often materially reduces the demand for the generic or the reference product for which we seek regulatory approval.

In the U.S., some companies have lobbied Congress for amendments to the Hatch-Waxman Act that would give them additional advantages over generic competitors. For example, although the term of a company's drug patent can be

extended to reflect a portion of the time an NDA is under regulatory review, some companies have proposed extending the patent term by a full year for each year spent in clinical trials rather than the one-half year that is currently permitted.

If proposals like these were to become effective, or if any other actions by our competitors and other third parties to prevent or delay activities necessary to the approval, manufacture, or distribution of our products are successful, our entry into the market and our ability to generate revenues associated with new products may be delayed, reduced, or eliminated, which could have material adverse effects on our reputation, business, financial condition, operating results, cash flows and liquidity.

A proposed FDA rule allowing generic companies to distribute revised labels that differ from the corresponding reference listed drug ("RLD") could have an adverse effect on our operations because of a potential increase in litigation exposure.

On November 13, 2013, the FDA issued a proposed rule (Docket No. FDA-2013-N-0500) titled "Supplemental Applications Proposing Labeling Changes for Approved Drugs and Biological Products." Pursuant to the rule, the FDA will change existing regulations to allow generic drug application holders, in advance of the FDA's review, to distribute revised labeling, to reflect safety-related changes based on newly acquired information. Currently, the labels of generic drugs must conform to those of the corresponding RLD and any failure-to-warn claims against generic companies are preempted under U.S. Federal law. Once this rule is released, we could be found liable under such failure-to-warn claims if we do not revise our labeling to reflect safety-related changes promptly upon receipt of applicable safety information. While we proactively conduct surveillance for reported safety issues with our products, we cannot guarantee that this will prevent us from being found liable under a failure-to-warn claim. When this proposed regulatory change is adopted, it could increase our potential liability with respect to failure-to-warn claims, which, even if successfully defended, could have material adverse effects on our reputation, business, financial condition, operating results, cash flows and liquidity.

Our policies regarding returns, allowances, rebates and chargebacks, and marketing programs adopted by wholesalers may reduce our revenues in future fiscal periods.

Based on industry practice, generic drug manufacturers have liberal return policies and have been willing to give customers post-sale inventory allowances. We, like other generic companies, have agreements with customers allowing chargebacks, product returns, administrative fees, and other rebates. Under these arrangements, from time to time we give our customers credits on our generic products that our customers already hold in inventory after we have decreased the market prices of the same generic products due to competitive pricing. Therefore, if new competitors enter the marketplace and significantly lower the prices of any of their competing products, we would likely reduce the price of our product. As a result, we would be obligated to provide credits to our customers who are then holding inventories of such products, which could reduce sales revenue and gross margin for the period the credit is provided. Like our competitors, we also give credits for chargebacks to wholesalers that have contracts with us for their sales to hospitals, group purchasing organizations, pharmacies or other customers.

A chargeback is the difference between the price the wholesaler pays and the price that the wholesaler's end-customer pays for a product. Although we establish reserves based on our prior experience and our best estimates of the impact that these policies may have in subsequent periods, we cannot ensure that our reserves are adequate or that actual product returns, allowances, rebates, chargebacks and partnered product liabilities will not exceed our estimates.

The regulatory approval process outside the U.S. varies depending on foreign regulatory requirements, and failure to obtain regulatory approval in foreign jurisdictions would prevent the marketing of our products in those jurisdictions.

We have certain worldwide intellectual property rights to market some of our products and product candidates. We intend to seek approval to market certain of our products outside of the U.S. To market our products in the European Union and other foreign jurisdictions, we must obtain separate regulatory authorization and comply with numerous and varying regulatory requirements. Approval of a product by the comparable regulatory authorities of foreign countries must be obtained prior to marketing that product in those countries. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process includes all of the risks associated with obtaining FDA approval set forth herein and approval by the FDA does not ensure approval by the regulatory authorities of any other country, nor does the approval by foreign regulatory authorities in one country ensure approval by regulatory authorities in other foreign countries or the FDA. If we fail to comply with these regulatory requirements or obtain and maintain required approvals, our target market will be reduced and our ability to generate revenue from abroad will be adversely affected.

We have entered into collaborative arrangements that may not result in marketable products.

We regularly enter into collaborative arrangements to develop generic products for us to market in the U.S. We can offer no assurances that these arrangements will result in additional approved products, or that we will be able to market the products at a profit. In addition, any expenses related to trials, or additional studies required by the FDA, that we may incur in connection with these collaborative arrangements may negatively affect our business, financial condition, operating results, cash flows and liquidity. Specifically:

- trials could be more costly than we anticipate;
- formulation development could take longer and be more costly than we expect; and
- we may be required to obtain specialized equipment in order to manufacture products on a commercial scale.

Any of these events could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Our growth and development will depend on developing, commercializing and marketing new products, including both our own products and those developed with our collaboration partners. If we do not do so successfully, our growth and development will be impaired.

Our future revenues and profitability will depend, to a significant extent, upon our ability to successfully commercialize new generic pharmaceutical products in a timely manner. As a result, we must continually develop and test new products, and these new products must meet regulatory standards and receive requisite regulatory approvals. Products we are currently developing may or may not achieve the technology success or receive the regulatory approvals or clearances necessary for us to market them. Furthermore, the development and commercialization process is time-consuming and costly, and we cannot assure you that any of our products, if and when developed and approved, can be successfully commercialized. Some of our collaboration partners may decide to make substantial changes to a product's formulation or design, may experience financial difficulties or have limited financial resources, any of which may delay the development, commercialization and/or marketing of new products. In addition, if a co-developer on a new product terminates our collaboration agreement or does not perform under the agreement, we may experience delays and, possibly, additional costs in developing and marketing that product.

The time necessary to develop generic drugs may adversely affect whether, and the extent to which, we receive a return on our capital.

We generally begin our development activities for a new generic drug product several years in advance of the patent expiration date of the brand-name drug equivalent. The development process, including drug formulation, testing, and FDA review and approval, often takes three or more years. This process requires that we expend considerable capital to pursue activities that do not yield an immediate or near-term return. Also, because of the significant time necessary to develop a product, the actual market for a product at the time it is available for sale may be significantly less than the originally projected market for the product, including the possibility that the product has become eligible for OTC sales. If this were to occur, our potential return on our investment in developing the product, if approved for marketing by the FDA, would be adversely affected and we may never receive a return on our investment in the product.

If we experience product recalls, we may incur significant and unexpected costs, and our business reputation could be adversely affected.

We may be exposed to product recalls and adverse public relations if our products are alleged to cause injury or illness, or if we are alleged to have violated governmental regulations. A product recall could result in substantial and unexpected expenditures, which would reduce operating profit and cash flow. In addition, a product recall may require significant management attention. Product recalls may hurt the value of our brands and lead to decreased demand for our products. Product recalls also may lead to increased scrutiny by federal, state or international regulatory agencies of our operations and increased litigation and could have a material adverse effect on our reputation, business,

financial condition, operating results and cash flows.

Dependence on a limited number of suppliers of Human Health and Pharmaceutical Ingredients products could lead to delays, lost revenue or increased costs.

Our future operating results may depend substantially on our suppliers' ability to timely provide Human Health and Pharmaceutical Ingredients products in connection with ANDAs and such suppliers' ability to supply us with these ingredients or materials in sufficient volumes to meet our production requirements. A number of the ingredients or materials that we use are available from only a single or limited number of qualified suppliers, and may be used across multiple product lines. If there is a significant increase in demand for an ingredient or other material resulting in an inability to meet demand, if an ingredient or material is otherwise in short supply or becomes wholly unavailable, if a supplier fails to supply the ingredients or materials, or if a supplier has a quality issue, we may experience delays or increased costs in obtaining that ingredient or material. If we are unable to obtain sufficient quantities of ingredients or other necessary materials, we may experience production delays in our supply. We may also incur substantial liability to our customers for failing to supply the product to them. (See *"We may be subject to significant level service penalties in our generics business."*).

Each of the following could also interrupt the supply of, or increase the cost of, ingredients or other materials:

- an unwillingness of a supplier to supply ingredients or other materials to us;
- consolidation of key suppliers;
- failure of a key supplier's business process;
- a key supplier's inability to access credit necessary to operate its business; or
- failure of a key supplier to remain in business, to remain an independent supplier, or to adjust to market conditions.

Any interruption in the supply or increase in the cost of ingredients or other materials provided by single or limited source suppliers could have a material adverse effect on our reputation, business, financial condition, operating results, cash flows and liquidity.

We may be subject to significant service level penalties in our generics business.

Certain of our distribution agreements in our finished dosage form generics business contain service level penalties ("failure to supply") or similar provisions that may subject us to charges and penalties in the event we do not meet our supply obligations thereunder. Such charges and penalties may be substantial and may not be adequately reimbursed by our suppliers or at all. We incurred approximately $27,778 in gross failure to supply penalties during the year ended June 30, 2018 of which we anticipate approximately $9,445 will be reimbursed to us by our suppliers responsible for our inability to supply product. Additionally, we are disputing many of these charges and working with our customers to reverse some of these charges. The level of failure to supply penalties is difficult for us to predict and thus we can provide no assurance with respect to the level of these penalties in future periods. A continuation of these supply challenges could have a material adverse effect on our reputation, business, financial condition, operating results, cash flows and liquidity.

Our success in our Human Health segment is linked to the size and growth rate of the generic pharmaceutical, vitamin, mineral and supplement markets and an adverse change in the size or growth rate of these markets could have a material adverse effect on us.

An adverse change in size or growth rate of the generic pharmaceutical, vitamin, mineral and supplement markets could have a material adverse effect on us. Underlying market conditions are subject to change based on economic conditions, consumer preferences and other factors that are beyond our control, including media attention and scientific research, which may be positive or negative.

Healthcare reform and a reduction in the reimbursement levels by governmental authorities, HMOs, MCOs or other third-party payors could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

In recent years, there have been numerous initiatives on the federal and state levels for comprehensive reforms affecting the payment for, the availability of and reimbursement for, healthcare services in the United States, and it is likely that Congress and state legislatures and health agencies will continue to focus on healthcare reform in the future. Third party payors increasingly challenge pricing of pharmaceutical products. The trend toward managed healthcare, the growth of organizations such as HMOs and MCOs and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of pharmaceutical products, resulting in lower prices and a reduction in product demand. We are unable to predict the future course of federal or state healthcare legislation. If significant additional reforms are made to the United States healthcare system, those reforms could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Any failure to comply with the complex reporting and payment obligations under Medicare, Medicaid and other government programs may result in litigation or sanctions.

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback, false claims, marketing and pricing laws. We are also subject to Medicaid and other government reporting and payment obligations that are highly complex and somewhat ambiguous. Violations of these laws and reporting obligations are punishable by criminal and/or civil sanctions and exclusion from participation in federal and state healthcare programs such as Medicare and Medicaid. The recent healthcare reform legislation made several changes to the federal anti-kickback statute, false claims laws, and health care fraud statute such as increasing penalties and making it easier for the government to bring sanctions against pharmaceutical companies. If our past, present or future operations are found to be in violation of any of the laws described above or other similar governmental regulations, we may be subject to the applicable penalty associated with the violation which could adversely affect our ability to operate our business and negatively impact our financial results. Further, if there is a change in laws, regulations or administrative or judicial interpretations, we may have to change our business practices or our existing business practices could be challenged as unlawful, which could have a material adverse effect on our business, results of operations, financial condition, cash flows and liquidity.

Our future results could be materially adversely affected by a number of public health issues whether occurring in the United States or abroad.

Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have a broader adverse impact on consumer spending and confidence levels that would negatively affect our suppliers and customers. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, results of operations, financial condition, cash flows and liquidity.

Our revenue stream and related gross profit is difficult to predict.

Our revenue stream is difficult to predict because it is primarily generated as customers place orders and customers can change their requirements or cancel orders. Many of our sales orders are short-term and could be cancelled at any time. As a result, much of our revenue is not recurring from period to period, which contributes to the variability of our results from period to period. In addition, certain of our products carry a higher gross margin than other products, particularly in the Human Health and Pharmaceutical Ingredients segments. Reduced sales of these higher margin products could have a material adverse effect on our operating results. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

From time to time we may need to rely on licenses to proprietary technologies, which may be difficult or expensive to obtain.

We may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially market our products may be inhibited or prevented, which could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Changes to the industries and markets that Aceto serves could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

The business environment in which we operate remains challenging. Portions of our operations are subject to the same business cycles as those experienced by automobile, housing, and durable goods manufacturers. Our demand is largely derived from the demand for our customers' products, which subjects us to uncertainties related to downturns in our customers' business and unanticipated customer production shutdowns or curtailments. A material downturn in sales or gross profit due to weak end-user markets and loss of customers could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Our operating results could fluctuate in future quarters, which could adversely affect the trading price of our common stock.

Our operating results could fluctuate on a quarterly basis as a result of a number of factors, including, among other things, the timing of contracts, orders, the delay or cancellation of a contract, and changes in government regulations.

Any one of these factors could have a significant impact on our quarterly results. In some quarters, our revenue and operating results could fall below the expectations of securities analysts and investors, which would likely cause the trading price of our common stock to decline.

We have significant inventories on hand.

The Company maintains significant inventories. Any significant unanticipated changes in future product demand or market conditions, including, among other things, the current uncertainty in the global market, could materially adversely affect the value of inventory and our business, financial condition, operating results, cash flows and liquidity.

Failure to obtain products from outside manufacturers could adversely affect our ability to fulfill sales orders to our customers.

We rely on outside manufacturers to supply products for resale to our customers. Manufacturing problems, including, among other things, manufacturing delays caused by plant shutdowns, regulatory issues, damage or disruption to raw material supplies due to weather, including, among other things, any potential effects of climate change, natural disaster or fire, could occur. If such problems occur, we cannot assure you that we will be able to deliver our products to our customers profitably or on time. Such factors could exacerbate our exposure to failure to supply penalties. See "*We may be subject to significant service level penalties in our generics business.*"

Increases in the cost of shipping with our third-party shippers could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Shipping is a significant expense in the operation of our business. Accordingly, any significant increase in shipping rates could have an adverse effect on our operating results. Similarly, strikes or other service interruptions by those shippers could cause our operating expenses to rise and adversely affect our ability to deliver products on a timely basis.

We could incur significant uninsured environmental and other liabilities inherent in the chemical/pharmaceutical distribution industry that could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

The business of distributing chemicals and pharmaceuticals is subject to regulation by numerous federal, state, local, and foreign governmental authorities. These regulations impose liability for loss of life, damage to property and equipment, pollution and other environmental damage that could occur in our business. Many of these regulations provide for substantial fines and remediation costs in the event of chemical spills, explosions and pollution. While we believe that we are in substantial compliance with all current laws and regulations, we can give no assurance that we will not incur material liabilities that are not covered by insurance or exceed our insurance coverage or that such insurance will remain available on terms and at rates acceptable to us. Additionally, if existing environmental and other regulations are changed, or additional laws or regulations are passed, the cost of complying with those laws could be substantial, thereby materially adversely affecting our business, financial condition, operating results, cash flows and liquidity.

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.

Our subsidiary, Arsynco, has environmental remediation obligations in connection with its former manufacturing facility in Carlstadt, New Jersey. Estimates of how much it would cost to remediate environmental contamination at this site have increased since the facility was closed in 1993. If the actual costs are significantly greater than estimated, it could have a material adverse effect on our financial condition, operating results, cash flows and liquidity.

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.

Our business, products or product pricing could be subject to negative publicity arising from the subpoena we recently received, which could have a material adverse effect on our reputation, business, financial position, results of operations, liquidity and cash flows.

In recent years, the generic pharmaceutical industry has been the subject of significant publicity regarding the pricing of pharmaceutical products, including publicity and pressure resulting from prices charged by competitors and peer companies for new products as well as price increases by competitors and peer companies on older products that the public has deemed excessive. Any downward pricing pressure on the price of our products arising from social or political pressure to lower the cost of pharmaceutical products could have a material adverse impact on our business, financial position, results of operations, liquidity and cash flows.

Accompanying the press and media coverage of pharmaceutical pricing practices and public complaints about the same, there has been increasing U.S. federal and state legislative and enforcement interest with respect to drug pricing. For instance, the United States Department of Justice has issued subpoenas to pharmaceutical companies seeking information about the sales, marketing and pricing of certain generic drugs. In connection with the DOJ's ongoing investigation into marketing and pricing practices throughout the generic pharmaceutical industry, we received a subpoena from the Antitrust Division of the DOJ in April 2018. In addition to the substantial defense costs typically incurred in responding to a governmental subpoena and the effects of any investigations or claims brought against us as a result of this subpoena, our business, financial position, results of operations, liquidity and cash flows could also be materially adversely affected if any such inquiries, of us or of other pharmaceutical companies or the industry more generally, were to result in legislative or regulatory proposals that limit our ability to increase the prices of our products.

We are engaged in various civil suits which could be expensive to defend, which could divert our management's attention and which, if determined adversely, could harm our reputation and have a material and negative affect on our business, financial condition, results of operations, cash flows and liquidity.

As described in Part I, Item 3 – Legal Proceedings," we are engaged in a number of civil suits that may occupy a substantial amount of our time, attention and resources. We and certain of our former and current executive officers have been named as defendants in securities actions filed in the United States District Court for the Eastern District of New York. We have also been named as a defendant in an action by a supplier seeking damages and the termination of an existing supply agreement. While we plan to vigorously defend these actions, we may be unable to defend or settle these claims on favorable terms or at all, and there can be no assurance that additional claims will not be made by other shareholders, or shareholders as a class, and by other suppliers. We expect to incur significant expenses associated with the defense of the pending and any future securities laws claims or derivative suits (including, without limitation, substantial attorneys' fees and other fees of professional advisors and potential obligations to indemnify individuals who are or may become parties to such actions) as well as in the defense of the pending and any future legal proceedings with suppliers. An adverse determination, if one were to occur, could harm our reputation and have a material and negative affect on our business, financial condition, results of operations, cash flows and liquidity. We

currently maintain “directors and officers” insurance policies with respect to the securities actions; however, our insurance coverage may not be adequate or available for us to avoid or limit our exposure in the pending actions or in future claims and adequate insurance coverage may not be available in sufficient amounts or at a reasonable cost in the future. Additionally, securities and derivative claims, as well as legal proceedings with suppliers and business partners, may divert our management’s attention from other business concerns, which could seriously harm our business, financial condition, results of operations, liquidity and cash flows.

The distribution and sale of some of our products are subject to prior governmental approvals and thereafter ongoing governmental regulation.

Our products are subject to laws administered by federal, state and foreign governments, including the Toxic Substances Control Act as well as regulations requiring registration and approval of many of our products. More stringent restrictions could make our products less desirable, which would adversely affect our revenues and profitability. Some of our products are subject to the EPA registration and re-registration requirements, and are registered in accordance with FIFRA. Such registration requirements are based, among other things, on data demonstrating that the product will not cause unreasonable adverse effects on human health or the environment when used according to approved label directions. Governmental regulatory authorities have required, and may require in the future, that certain scientific data requirements be performed on our products and this may require us, on our behalf or in joint efforts with other registrants, to perform additional testing. Responding to such requirements may cause delays in or the cessation of the sales of one or more of our products which would adversely affect our profitability. We can provide no assurance that any testing approvals or registrations will be granted on a timely basis, if at all, or that our resources will be adequate to meet the costs of regulatory compliance or that the economic benefit of complying with the requirement will exceed our cost.

Incidents related to hazardous materials could materially adversely affect our reputation, business, financial condition, operating results, cash flows and liquidity.

Portions of our operations require the controlled use of hazardous materials. Although we are diligent in designing and implementing safety procedures to comply with the standards prescribed by federal, state, and local regulations, the risk of accidental contamination of property or injury to individuals from these materials cannot be completely eliminated. In the event of such an incident, we could be liable for any damages that result, which could materially adversely affect our reputation, business, financial condition, operating results, cash flows and liquidity.

We are also continuing to expand our business in China and India, where environmental, health and safety regulations are still early in their development. As a result, we cannot determine how these laws will be implemented and the impact of such regulation on the Company.

Violations of cGMP and other government regulations could have a material adverse effect on our reputation, business, financial condition and results of operations.

All facilities and manufacturing techniques used to manufacture pharmaceutical products for clinical use or for commercial sale in the United States and other Aceto markets must be operated in conformity with current Good Manufacturing Practices ("cGMP") regulations as required by the FDA and other regulatory bodies. Our suppliers' facilities are subject to scheduled periodic regulatory and customer inspections to ensure compliance with cGMP and other requirements applicable to such products. A finding that we or one or more of our suppliers had materially violated these requirements could result in one or more regulatory sanctions, loss of a customer contract, disqualification of data for client submissions to regulatory authorities and a mandated closing of our suppliers' facilities, which in turn could have a material adverse effect on our reputation, business, financial condition, operating results, cash flows and liquidity.

Our business could give rise to product liability claims that are not covered by insurance or indemnity agreements or exceed insurance policy or indemnity agreement limitations.

The marketing, distribution and use of pharmaceutical and chemical products involve substantial risk of product liability claims. We could be held liable if any product we or our partners develop or distribute causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. A successful product liability claim that we have not insured against, that exceeds our levels of insurance or for which we are not indemnified, may require us to pay a substantial amount of damages. In the event that we are forced to pay such damages, this payment could have a material adverse effect on our reputation, business, financial condition, operating results, cash flows and liquidity.

Rising insurance costs, as well as the inability to obtain certain insurance coverage for risks faced by us, could negatively impact profitability.

The cost of insurance, including directors and officers insurance, workers compensation, product liability and general liability insurance, has risen in recent years and may increase in the future. In response, we may increase deductibles and/or decrease certain coverage to mitigate these costs. These increases and our increased risk due to increased deductibles and reduced coverage could materially adversely affect our business, financial condition, operating results, cash flows and liquidity. Additionally, certain insurance coverage may not be available to us for risks faced by us. Sometimes the coverage we obtain for certain risks may not be adequate to fully reimburse the amount of damage that we could possibly sustain. Should either of these events occur, the lack of insurance to cover our entire loss could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

We source many of our products in China and changes in the political and economic policies of China's government could have a significant impact upon the business we may be able to conduct in China and our financial condition, operating results, cash flows and liquidity.

Our business operations could be materially adversely affected by the current and future political environment in China. China has operated as a socialist state since the mid-1900s and is controlled by the Communist Party of China. The Chinese government exerts substantial influence and control over the manner in which companies, such as ours, must conduct business activities in China. China has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of China has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, through regulation and state ownership. Our ability to conduct business in China could be adversely affected by changes in Chinese laws and regulations, including, among others, those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of China has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of China will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

China's laws and regulations governing our current business operations in China are sometimes vague and uncertain. Any changes in such laws and regulations could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

China's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of China's laws and regulations, including among others, the laws and regulations governing the conduct of business in China, or the enforcement and performance of arrangements with customers and suppliers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new laws or regulations may have on our business in China. If the relevant authorities find that we are in violation of China's laws or regulations, they would have broad discretion in dealing with such a violation, including, among other things: (i) levying fines and (ii) requiring that we discontinue any portion or all of our business in China.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign businesses conducting business in China. While the trend of legislation over the last 20 plus years has significantly enhanced the protection of foreign businesses in China, there can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting China's political, economic or social life, will not affect China's government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

Our ability to compete in certain markets we serve is dependent on our ability to continue to expand our capacity in certain offshore locations. However, as our presence in these locations increases, we are exposed to risks inherent to these locations which could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

A significant portion of our outsourcing has been shifted to India. As such, we are exposed to the risks inherent to operating in India including, among others, (1) a highly competitive labor market for skilled workers which may result in significant increases in labor costs as well as shortages of qualified workers in the future, and (2) the possibility that the U.S. federal government or the European Union may enact legislation which may disincentivize customers from producing in their local countries which would reduce the demand for the services we provide in India and could materially adversely affect our business, financial condition, operating results and cash flows.

Fluctuations in foreign currency exchange rates could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

A substantial portion of our revenue is denominated in currencies other than the U.S. dollar because certain of our foreign subsidiaries operate in their local currencies. Our business, financial condition, operating results, cash flows and liquidity therefore could be materially adversely affected by fluctuations in the exchange rate between foreign currencies and the U.S. dollar.

Failure to comply with U.S. or non-U.S. laws regulating trade, such as the U.S. Foreign Corrupt Practices Act, could result in adverse consequences, including fines, criminal sanctions, or loss of access to markets.

We are subject to the U.S. Foreign Corrupt Practices Act ("FCPA"), which, among other things, prohibits corporations and individuals from paying, offering to pay, or authorizing the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. While our employees and agents are required to comply with these laws, we cannot assure you that our internal policies and procedures will always protect us from violations of these laws, despite our commitment to legal compliance and corporate ethics. The occurrence or allegation of these types of events could materially adversely affect our reputation, business, financial condition, operating results, cash flows and liquidity.

Tax legislation and assessments by various tax authorities could be materially different than the amounts we have provided for in our consolidated financial statements.

We are regularly audited by federal, state, and foreign tax authorities. From time to time, these audits could result in proposed assessments. While we believe that we have adequately provided for any such assessments, future settlements could be materially different than we have provided for and thereby materially adversely affect our earnings and cash flows.

We operate in various tax jurisdictions, and although we believe that we have provided for income and other taxes in accordance with the relevant regulations, if the applicable regulations were ultimately interpreted differently by a taxing authority, we could be exposed to additional tax liabilities. Our effective tax rate is based on our expected geographic mix of earnings, statutory rates, intercompany transfer pricing, and enacted tax rules. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into law, which enacted various changes to the U.S. corporate tax law. These changes include, among others, a federal statutory rate reduction from 35% to 21% effective January 1, 2018, the elimination or reduction of certain domestic deductions and credits, limitations on the deductibility of executive compensation, and a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain and is subject to developing interpretations of the provisions of the legislation, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries, and the filing of our tax returns. The Company will continue to evaluate the interpretations and assumptions made, guidance that may be issued and actions the Company may take as a result of the TCJA, which could materially change the amounts recorded in fiscal 2018 as new information becomes available. The final analysis of the transition tax and the remeasurement of our deferred tax assets and liabilities will be completed as additional information becomes available, but no later than one year from the date of enactment. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions on a worldwide basis. We believe our tax positions, including, among others, intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business. It is possible that these positions may be challenged by jurisdictional tax authorities and could have a significant impact on our effective tax rate. In addition, from time to time, various legislative initiatives could be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In connection with the Organization for Economic Cooperation and Development Base Erosion and Profit Shifting (BEPS) project, starting in 2017, companies may be required to disclose more information to tax authorities on operations around the world. The Company regularly assesses the likely outcomes of its tax audits to determine the appropriateness of its tax reserves. However, any tax authority could take a position on tax treatment that is contrary to the Company's expectations, which could result in tax liabilities in excess of reserves.

Significant changes to the U.S. federal government's trade policies, including new tariffs or the renegotiation or termination of existing trade agreements and/or treaties could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

We derive revenue from clients in many countries, and our overall performance depends in part on worldwide economic conditions. The Trump administration has called for substantial changes to foreign trade policy and has imposed and is considering imposing additional tariffs on certain foreign goods. We also rely on various U.S. corporate tax provisions related to international commerce. If we are subject to new regulations, or if restrictions and tariffs increase our operating costs in the future, and we are not able to recapture those costs from our customers, or if such initiatives regulations, restrictions and tariffs make it more difficult for us to compete in overseas markets, our business, financial condition, operating results, cash flows and liquidity could be materially adversely impacted.

Our business is subject to a number of global economic risks.

From time to time, financial markets in the United States, Europe and Asia have and could experience extreme disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intending to address extreme market conditions that include severely restricted credit and declines in values of certain assets.

An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for our products and result in a decrease in revenue that could have a negative impact on our results of operations. Continued volatility and disruption of financial markets in the United States, Europe and Asia could limit our customers' ability to obtain adequate financing or credit to purchase our products or to pay for outstanding invoices owed to us or to maintain operations, and result in a decrease in revenue or cash collections that could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Making interest and principal payments on our Convertible Senior Notes due 2020 (the "Notes"), which were issued in November 2015, requires and will continue to require a significant amount of cash, and we may not have sufficient cash flows from our business to make future interest and principal payments.

Our ability to continue to make scheduled interest payments and to make future principal payments on the Notes depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flows from operations sufficient to service our debt. If we are unable to generate such cash flows, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, including the Notes, which could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

We may not have the ability to raise the funds necessary to settle conversions of the Notes that we issued in November 2015 or to repurchase such Notes upon a fundamental change, and our senior secured credit facility contains, and our future debt may contain, limitations on our ability to pay cash upon conversion or repurchase of such Notes.

Holders of our Notes have the right to require us to repurchase their notes upon the occurrence of certain fundamental events (each, a "fundamental change") at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional shares), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or pay cash upon conversions of notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes is limited by agreements governing our existing senior secured credit facility, and may be further limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the indenture governing the Notes or to pay any cash payable on future conversions of the Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could, if not cured within applicable time periods, lead to a default under agreements governing our existing senior secured credit facility, and could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

Our senior secured credit facility limits our ability to pay any cash amount upon the conversion or repurchase of the Notes.

Our existing senior secured credit facility prohibits us from making any cash payments on the conversion or repurchase of the Notes if an event of default exists under that facility or if, after giving effect to such conversion or repurchase (and any additional indebtedness incurred in connection with such conversion or a repurchase), we would not be in pro forma compliance with our financial covenants under that facility. Any new credit facility that we may enter into in the future may have similar restrictions. Our failure to make cash payments upon the conversion or repurchase of the Notes as required under the terms of the Notes would permit holders of the Notes to accelerate our obligations under the Notes.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition, operating results and liquidity.

In the event the conditional conversion feature of the Notes is triggered, holders of notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options ("ASC 470-20"). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the capital in excess of par value section of shareholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess are issued (which is the policy we intend to follow for settling such excess). If we are unable to use the treasury stock method in the future for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

We may need to raise additional capital to fund larger acquisitions and investments in the future which capital may not be available on acceptable terms or at all.

Historically, acquisitions and investments in new products have been an important component of our growth strategy. Larger acquisitions and investments would require us to raise additional capital. Until we are able to reduce our debt obligations significantly, the September 2018 Amendment will restrict, if not eliminate, our ability to access the debt markets to fund the growth of our business. As a result, we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements.

If we are able to pursue an acquisition strategy in the future, that strategy will be subject to a number of inherent risks, including, among other things, the risk that our acquisitions may not be successful.

Any acquisitions that we are able to pursue in the future would be subject to inherent risks, and we cannot guarantee that we will be able to identify the appropriate opportunities, successfully negotiate economically beneficial terms, successfully integrate any acquired business, retain key employees, or achieve the anticipated synergies or benefits of the strategic alternative selected. Acquisitions can require significant capital resources and divert our management's attention from our existing business. Additionally, we may issue additional shares in connection with a strategic transaction, thereby diluting the holdings of our existing common shareholders, incur debt or assume liabilities, become subject to litigation, or consume cash, thereby reducing the amount of cash available for other purposes.

If we are unable to manage our growth, our business, financial condition, operating results, cash flows and liquidity could be materially adversely affected.

We have experienced rapid growth in the past several years, including the acquisition of membership interests of PACK Pharmaceuticals, LLC in fiscal 2014 and the acquisition of certain generic products and related assets of entities formerly known as Citron Pharma LLC and its affiliate Lucid Pharma in fiscal 2017. This growth has required us to expand, upgrade, and improve our administrative, operational, and management systems, internal controls and resources. Failing to manage growth effectively could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Any acquisition that we make could result in a substantial charge to our earnings.

We have previously incurred charges to our earnings in connection with acquisitions, and may continue to experience charges to our earnings for any acquisitions that we make, including, among other things, contingent consideration and impairment charges. These costs may also include substantial severance and other closure costs associated with eliminating duplicate or discontinued products, employees, operations and facilities. These charges could have a material adverse effect on our results of operations and they could have a material adverse effect on the market price of our common stock.

Changes in estimates regarding the fair value of intangible assets may significantly impact our profitability.

We have a significant amount of definite-lived intangible assets, In accordance with U.S. GAAP, we perform an impairment analysis when events or circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss is recognized if, based on our impairment analysis, the carrying amount of the asset is not recoverable and its carrying amount exceeds its fair value. Any significant change in market conditions, estimates or judgments used to determine expected future cash flows that indicate a reduction in carrying value may give rise to impairment in the period that the change becomes known. An impairment charge could have a material adverse effect on our business, financial condition and operating results.

Our information technology systems could fail to perform adequately or we may fail to adequately protect such information technology systems against data corruption, cyber-based attacks, or network security breaches.

We rely on information technology networks and systems, including the Internet, to process, transmit, and store electronic information. In particular, we depend on our information technology infrastructure to effectively manage its business data, supply chain, logistics, accounting, and other business processes and electronic communications between our personnel and our customers and suppliers. If we do not allocate and effectively manage the resources necessary to build and sustain an appropriate technology infrastructure, our business, financial condition, operating results, cash flows and liquidity therefore could be materially adversely affected. In addition, security breaches or system failures of this infrastructure can create system disruptions, shutdowns, or unauthorized disclosure of confidential information. If we are unable to prevent such breaches or failures, our operations could be disrupted, or we may suffer financial damage or loss because of lost or misappropriated information.

Our business may be adversely affected if we encounter complications in connection with the upgrade and implementation of our enterprise resource planning ("ERP") system, our information technology systems and infrastructure. Upgrading and integrating our business systems could result in implementation issues and business disruptions.

In recent years, we have implemented a new ERP system at all our global locations. The implementation of a new ERP system at our Rising subsidiary was completed in the fourth quarter of fiscal 2018. In general, the process of planning and preparing for these types of implementations is extremely complex and we were required to address a number of challenges, including data conversion, system cutover and user training during the Rising implementation. We encountered operational problems during implementation, including delayed shipments, delays in billing and other operational issues. In addition, in automating processes that heretofore have been undertaken manually, we were required to reassess certain of our estimates, especially with respect to our rebates, returns and chargebacks approaches. While we believe that we have corrected or mitigated these issues, our fourth quarter results were negatively impacted. We have invested significantly in the operation and protection of data and information

technology; however, there can be no assurance that our efforts will prevent service interruptions or identify breaches in our systems. Prolonged interruptions or significant breaches could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

Our potential liability arising from our commitment to indemnify our directors, officers and employees could materially adversely affect our business, financial condition, operating results, cash flows and liquidity.

We have committed in our bylaws to indemnify our directors, officers and employees against the reasonable expenses incurred by these persons in connection with any action brought against them in such capacity, except in matters as to which they are adjudged to have breached a duty to us. The maximum potential amount of future payments we could be required to make under this provision is unlimited. While we have ”directors and officers” insurance policies that should cover all or some of this potential exposure, we could be materially and adversely affected if we are required to pay damages or incur legal costs in connection with a claim above our insurance limits. (See Part I, Item 3, Legal Proceedings).

Our business could be materially adversely affected by terrorist activities.

Our business depends on the free flow of products and services through the channels of commerce worldwide. Instability due to military, terrorist, political and economic actions in other countries could materially disrupt our overseas operations and export sales. In fiscal years 2018 and 2017, approximately 28% and 27%, respectively of our revenues were attributable to operations conducted abroad and to sales generated from the United States to foreign countries. In addition, in fiscal year 2018, approximately 61% and 15% of our purchases came from Asia and Europe, respectively. In addition, in certain countries where we currently operate or export, intend to operate or export, or intend to expand our operations, we could be subject to other political, military and economic uncertainties, including, among other things, labor unrest, restrictions on transfers of funds and unexpected changes in regulatory environments.

We have experienced turnover in our senior management, and the loss of key personnel or an ability to attract, retain and motivate qualified personnel may result in operational inefficiencies that could negatively affect our business.

Our success depends upon the continued service of our talented management, as well as our key operational and technical employees, as well as upon our ability to continue to attract additional highly qualified personnel. We have recently experienced significant turnover in our senior management. In October 2017, William C. Kennally III replaced Salvatore Guccione as our chief executive officer. In October 2017, our chief financial officer, Douglas Roth, announced that he was retiring. He was replaced by Edward J. Borkowski, who served only briefly before accepting employment elsewhere. We have named Rebecca Roof to serve as our interim chief financial officer at a cost of two hundred fifty thousand dollars per month, payable to Ms. Roof’s employer AP Services LLC, an affiliate of AlixPartners LLP. In light of the significant challenges we are facing, we have also retained financial advisors to assist us in evaluating strategic options at considerable expense.

Shortage of qualified and technical personnel in a competitive marketplace may prevent us from growing our business.

We may be unable to hire or retain qualified and technical employees and there is substantial competition for highly skilled employees. If we fail to attract and retain key employees, our business could be adversely impacted.

Litigation could harm our business and our management and financial resources.

Substantial, complex or extended litigation could cause us to incur large expenditures and could distract our management. For example, lawsuits by employees, stockholders, collaborators, distributors, customers, or end-users of our products or services could be very costly and substantially disrupt our business. Disputes from time to time with such companies or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes out of court or on favorable terms.

The market price of our stock could be volatile.

The market price of our shares of common stock has fluctuated significantly from $15.45 to $3.35 from June 30, 2017 to June 29, 2018. The market price of our common stock has been subject to volatility and may continue to be volatile in the future, due to a variety of factors, including, among other things:

- quarterly fluctuations in our operating income and earnings per share results
- technological innovations or new product introductions by us or our competitors
- economic conditions
- tariffs, duties and other trade barriers including, among other things, anti-dumping duties
- disputes concerning patents or proprietary rights
- changes in earnings estimates and market growth rate projections by market research analysts

- any future issuances of our common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions, restricted stock/units and the grant or exercise of stock options from time to time
- sales of common stock by existing security holders
- loss of key personnel
- securities class actions or other litigation

The market price for our common stock may also be affected by our ability to meet analysts' expectations. Any failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies.

Our stock repurchase program could affect the price of our common stock and increase volatility. The repurchase program may be suspended or terminated at any time, which could result in a decrease in the trading price of our common stock.

In May 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, but not obligated, 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. Repurchases pursuant to our stock repurchase program could affect our stock price and increase the volatility of our common stock. The existence of a stock repurchase program could also potentially reduce the market liquidity for our stock. Although the stock repurchase program is intended to enhance long-term stockholder value, we cannot provide assurance that this will occur. The stock repurchase program may be suspended or terminated at any time, and we have no obligation to repurchase any amount of our common stock under the program.

There are inherent uncertainties involved in estimates, judgments and assumptions used in preparing financial statements in accordance with U.S. generally accepted accounting principles. Any changes in the estimates, judgments and assumptions we use could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

The consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with GAAP. Preparing financial statements in accordance with GAAP involves making estimates, judgments and assumptions, including accruals for chargebacks, rebates, returns, partnered products and other allowances, that affect reported amounts of assets, liabilities, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change, and any such changes could result in corresponding changes to the reported amounts.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time-to-time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results of operations and financial condition.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our Annual Report on Form 10-K. Section 404 also requires our independent registered public accounting firm to report on our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, we cannot assure you that we will be able to conclude in the future that we have effective internal controls over financial reporting. If we fail to maintain effective internal controls, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission or NASDAQ. Any such action could adversely affect our financial results and the market price of our common stock and may also result in delayed filings with the Securities and Exchange Commission.

Compliance with changing regulation of corporate governance and public disclosure could result in additional expenses.

Complying with changing laws, regulations and standards relating to corporate governance and public disclosure, including, among others, the Sarbanes-Oxley Act of 2002 and new SEC regulations, will require the Company to expend additional resources. We are committed to maintaining the highest standards of corporate governance and public disclosure. As a result, we may be required to continue to invest necessary resources to comply with evolving laws, regulations and standards, and this investment could result in increased expenses and a diversion of management time and attention from revenue-generating activities.

The expansion of social media platforms present new risks and challenges, which could have a material adverse effect on our reputation, business, financial condition, operating results, cash flows and liquidity.

The inappropriate use of certain media vehicles could cause brand damage or information leakage or could lead to legal implications from the improper collection and/or dissemination of personally identifiable information. In addition, negative posts or comments about us on any social networking website could seriously damage our reputation. Further, the disclosure of non-public company sensitive information through external media channels could lead to information loss as there might not be structured processes in place to secure and protect information. If our non-public sensitive information is disclosed or if our reputation is seriously damaged through social media, it could have a material adverse effect on our business, financial condition, operating results, cash flows and liquidity.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In March 2010, we purchased a building in Port Washington, New York, which is the site of our global headquarters. Our global headquarters consists of approximately 48,000 gross square feet and is subject to a mortgage, which at June 30, 2018, had an outstanding balance of $2,582.

The Company leases approximately 30,000 square feet of office space in Saddle Brook, New Jersey. In October 2017, Rising commenced leasing approximately 125,000 gross square feet of warehouse space in Somerset, New Jersey. This building is owned by the former owners of Citron and Lucid. The lease was entered into contemporaneously with the execution of our product purchase agreement with Citron and Lucid.

In November 2007, we purchased approximately 2,300 gross square meters of land along with 12,000 gross square feet of office space in Mumbai, India.

Arsynco owns a 12-acre parcel in Carlstadt, New Jersey. In June 2018, we 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. A closing date has not yet been set as the buyer’s due diligence has not yet been completed.

In November 2004, we purchased approximately 1,300 gross square meters of office space located in Shanghai, China for our sales offices and investment purposes.

We also lease office space in Hamburg, Germany; Düsseldorf, Germany; Heemskerk, The Netherlands; Paris, France; Lyon, France, Singapore and the Philippines. These offices are used for sales and administrative purposes.

We believe that our properties are generally well maintained, in good condition and adequate for our present needs.

Item 3. Legal Proceedings

We are subject to various claims that have arisen in the normal course of business. We do not know what impact the final resolution of these matters will have on our results of operations in a particular reporting period.

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.

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 a liability amount 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.

For information regarding proceedings under the federal Trade Agreement Act, see Part I, Item 1, "Business – Environmental and Regulatory."

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. That motion remains pending with the district court. In addition, SigmaPharm has also filed a "motion to enforce audit rights" in the federal litigation, which motion Rising and the Company have opposed because, among other reasons, any such request for final relief must be addressed to the arbitrators, and not to the district court.

SigmaPharm has stopped supplying Products to Rising, claiming that it has validly terminated the 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.

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 one of many operating companies in the generic pharmaceutical industry to receive a subpoena from the DOJ relating to its years-long investigation into the industry. 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.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market using the symbol "ACET." The following table states the fiscal year 2018 and 2017 high and low sales prices of our common stock as reported by the NASDAQ Global Select Market for the periods indicated.

	HIGH	LOW
FISCAL YEAR 2018		
First Quarter	$17.10	$10.27
Second Quarter	11.94	8.29
Third Quarter	11.98	6.87
Fourth Quarter	7.59	2.22
FISCAL YEAR 2017		
First Quarter	$25.98	$18.25
Second Quarter	22.46	15.69
Third Quarter	22.43	14.32
Fourth Quarter	16.30	13.50

Cash dividends of $0.065 per common share were paid in September, December and March of fiscal year 2018 and a cash dividend of $0.01 per common share was paid in June of fiscal year 2018. Cash dividends of $0.065 per common share were paid in September, December, March and June of fiscal year 2017.

As of September 13, 2018, there were 210 holders of record of our common stock.

30,041,374 shares of our common stock were held by the nominee of the Depository Trust Company, the country's principal central depository. For purposes of determining the number of owners of our common stock, those shares are considered to be owned by one holder. Additional individual holdings in street name result in a sizable number of beneficial owners being represented on our records as owned by various banks and stockbrokers.

Performance Graph

The following graph compares on a cumulative basis the yearly percentage change, assuming dividend reinvestment, over the last five fiscal years in (a) the total shareholder return on our common stock with (b) the total return on the Standard & Poor's 500 Index, (c) the total return of a previously utilized peer group of comparable companies (the "Prior Peer Group") and (d) total return of our Current Peer Group. The Current Peer group companies included: Akorn Inc., AMAG Pharmaceuticals Inc., American Vanguard Corporation, Amphastar Pharmaceuticals, ANI Pharmaceuticals, Cambrex Corporation, Depomed, Impax Laboratories, Inc., Innophos Holdings, Inc., Lannett Company, Inc., Lawson Products, Inc., Luminex Corp., Prestige Brand Holdings, Inc., Quaker Chemical Corporation and Usana Health Sciences, Inc. Albany Molecular Research and Sagent Pharmaceuticals which were in the Peer Group last year were acquired and were replaced by AMAG Pharmaceuticals Inc. and Luminex Corp. Going forward, we expect to include the Current Peer Group and not the Prior Peer Group.

The following graph assumes that $100 had been invested in each of the Company, the Standard & Poor's 500 Index, the Prior Peer Group and the Current Peer Group on June 30, 2013. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ASSUMES $100 INVESTED ON JUNE 30, 2013

ASSUMES DIVIDEND REINVESTMENT

FISCAL YEAR ENDING JUNE 30, 2018

	Aceto Corporation	S&P 500 Index	Prior Peer Group	Current Peer Group
June 30, 2013	100	100	100	100
June 30, 2014	132	125	154	147
June 30, 2015	181	134	209	210
June 30, 2016	162	139	166	163
June 30, 2017	116	164	173	164
June 30, 2018	26	188	158	153

Item 6. Selected Financial Data

(In thousands, except per-share amounts)

Fiscal years ended June 30,	2018	2017	2016	2015	2014
Net sales	$711,359	$638,318	$558,524	$542,944	$510,179
Operating (loss) income	(275,012)	30,554	58,028	52,326	44,272
Net (loss) income	(316,121)	11,376	34,766	30,878	29,000
At year end					
Working capital	$200,109	$248,750	$251,150	$182,705	$157,831
Total assets	767,024	1,054,785	538,173	487,169	467,984
Long-term liabilities (including long-term debt)	369,221	410,313	137,430	110,563	115,877
Shareholders' equity	95,285	405,067	301,837	251,606	233,584
(Loss) income per common share					
Basic (loss) income per common share	$(8.98)	$0.35	$1.19	$1.07	$1.04
Diluted (loss) income per common share	$(8.98)	$0.35	$1.18	$1.06	$1.02
Cash dividends per common share	$0.205	$0.26	$0.24	$0.24	$0.24

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

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.

We are reporting net sales of $711,359 for the year ended June 30, 2018, which represents an 11.4% increase from the $638,318 reported in the comparable prior year. Gross profit for the year ended June 30, 2018 was $111,563 and our gross margin was 15.7% as compared to gross profit of $140,792 and gross margin of 22.1% in the comparable prior year. Our selling, general and administrative costs ("SG&A") for the year ended June 30, 2018 increased to $122,376 from $102,340 which we reported in the prior year. As previously discussed, we recorded impairment charges of

$256,266 and a valuation allowance of $76,500 against our U.S. net deferred tax assets during the year ended June 30, 2018. For the year ended June 30, 2018, we are reporting a net loss of $316,121 or $8.98 per diluted share, compared to net income of $11,376, or $0.35 per diluted share for the prior year.

The Company is incurring substantial expenses to address the issues that led to the impairment charges taken during the year. 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. The Company is also paying a flat monthly fee of $250 for the services of its interim chief financial officer, Rebecca Roof. Moreover, challenges impacting the generic pharmaceuticals industries have resulted in the Company incurring substantial penalties for delays in supplying products, many of which are not likely to be reimbursed by our suppliers. See Part 1, Item 1A, Risk Factor, - "*We may be subject to significant service level penalties in our generics business*". We have also incurred additional expenses and made commitments to assure that we are able to attract and retain key employees required to assist us in meeting our operational challenges.

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

As more fully described in the notes to our consolidated financial statements, on December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“TCJA”) was signed by the U.S. President. The TCJA significantly changes the income tax environment for U.S. multinational corporations and as such, we recorded additional income tax expense of $13,739 during the year ended June 30, 2018. In addition, as more fully described in Critical Accounting Estimates and Policies - Taxes, we recorded a valuation allowance of $76,500 against our U.S. net deferred tax assets.

Despite the difficult generic pharmaceutical industry environment, our cash, cash equivalents and short-term investments at June 30, 2018 totaled $103,904, as compared with $57,726 at June 30, 2017. Our working capital at June 30, 2018 remained strong at $200,109 (as compared with $248,750 at June 30, 2017). Our shareholders’ equity was $95,285 at June 30, 2018, as compared with $405,067 at June 30, 2017, reflecting our $316,121 net loss for fiscal 2018.

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

Products that fall within the Human Health segment include finished dosage form generic drugs and nutraceutical products. Aceto sells generic prescription products and over-the-counter pharmaceutical products to leading wholesalers, chain drug stores, distributors and mass merchandisers. 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).

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

stage assets, abbreviated new drug applications (“ANDAs”) and complementary generic drug businesses, this product acquisition significantly expanded our roster of commercialized products and pipeline of products under development.

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

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, in February 2018, we were notified by the U.S. government that 11 generic drug products we acquired through our Acetris Health subsidiary are not in compliance with the federal Trade Agreement Act country-of-origin provisions of a clause contained in the government supply contracts acquired from Lucid. Based on these indicators, we determined that it was necessary to perform an interim goodwill impairment analysis at March 31, 2018 for our Rising reporting unit. Accordingly, we 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.

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

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

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

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

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

Based on a report issued by IQVIA Institute on March 13, 2018, "real net per capita spending on medicines in the United States will decline in 2018 and continue almost unchanged at almost $800 per person through 2022."

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 July 17, 2018 Federal Reserve Statistical Release, in the second quarter of calendar year 2018, the index for consumer durables, which impacts the Specialty Chemicals business of the Performance Chemicals segment, is expected to decrease at an annual rate of 4.0%.

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 will 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

As you read this MD&A, refer to the accompanying consolidated statements of income, which present the results of our operations for the three years ended June 30, 2018. We analyze and explain the differences between periods in the specific line items of the consolidated statements of income.

Critical Accounting Estimates and Policies

This 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, partnered products, inventories, goodwill and indefinite-life intangible assets, long-lived assets, environmental and other contingencies, income taxes, stock-based compensation and purchase price allocation. We base our estimates on various factors, including historical experience, advice from outside subject-matter experts, and various assumptions that we believe to be reasonable under the circumstances, which together form the basis for our making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Since June 30, 2018, there have been no significant changes to the assumptions and estimates related to those critical accounting estimates and policies.

We implemented a new enterprise resource planning ("ERP") system at our Rising subsidiary during the fourth quarter of the year ended June 30, 2018. In automating processes that heretofore have been undertaken manually, we may be required to reassess certain of our estimates, especially with respect to our rebates, returns and chargebacks approaches.

We believe the following critical accounting policies affected our more significant judgments and estimates used in preparing these consolidated financial statements.

Revenue Recognition

We recognize revenue from sales of any product when it is shipped and title and risk of loss pass to the customer. We have no acceptance or other post-shipment obligations and we do not offer product warranties or services to our customers.

Sales are recorded net of estimated returns of damaged goods from customers, which historically have been immaterial, and sales incentives offered to customers. Sales incentives include volume incentive rebates. We record volume incentive rebates based on the underlying revenue transactions that result in progress by the customer in earning the rebate.

We have arrangements with various third parties, such as drug store chains and managed care organizations, establishing prices for our 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 our concurrence, which establishes the pricing for certain products which the wholesalers provide. Upon each sale of finished dosage form generics, estimates of chargebacks, rebates, returns, government reimbursed rebates, sales discounts and other adjustments are made. 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. These estimates are recorded as reductions to gross revenues, with corresponding adjustments either as a reduction of accounts receivable or as a liability for price concessions.

Under certain arrangements, we 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. As sales to the large wholesale customers increase or decrease, the reserve for chargebacks will also generally increase or decrease. The provision for chargebacks varies in relation to changes in sales volume, product mix, pricing and the level of inventory at the wholesalers. We continually monitor the reserve for chargebacks and make adjustments when management believes that expected chargebacks may differ from the actual chargeback reserve.

We estimate our provision for returns of finished dosage generics based on historical experience, product expiration dates, changes to business practices, credit terms 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. We continually monitor the reserve for returns and make adjustments when we believe that actual product returns may differ from the established reserve. Generally, the reserve for returns increases as net sales increase.

Government rebate accruals are based on estimated payments due to governmental agencies for purchases made by third parties under various governmental programs. Other rebates are offered to our 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. We provide a provision for government reimbursed rebates and other rebates at the time of sale based on contracted rates and historical redemption rates. Assumptions used to establish the provision include level of customer inventories, contract sales mix and average contract pricing. We regularly review the information related to these estimates and adjust the provision accordingly.

Sales discount accruals are based on payment terms extended to customers.

Credits issued during a given period represent cash payments or credit memos issued to our customers as settlement for the related reserve. We have the experience and access to relevant information that we believe is necessary to reasonably estimate the amounts of such deductions from gross revenues. We regularly review the information related to these estimates and adjust our reserves accordingly, if and when actual experience differs from previous estimates.

We have not made any material changes to our revenue recognition policies during the years ended June 30, 2018, 2017 and 2016. We adopted the FASB’s guidance for revenue recognition (Topic 606) for contracts as of July 1, 2018, using the modified retrospective method. We have concluded that the adoption of this guidance did not have a material impact on our net revenues. If actual results were not consistent with our estimates, we could be exposed to losses or gains that could be material, as any changes to these estimates could cause an increase or decrease in revenue recognized during the year.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts relating to estimated losses resulting from customers being unable to make required payments. Allowances for doubtful accounts are based on historical experience and known factors regarding specific customers and the industries in which those customers operate. If the financial condition of our customers were to deteriorate, resulting in their ability to make payments being impaired, additional allowances would be required.

Royalty Income

We have royalty agreements on certain products where third party pharmaceutical and agricultural protection companies market such products. We earn and collect royalty income based on percentages of net profits as defined in those agreements. Royalty income is included in net sales in our Consolidated Statements of Income.

Partnered Products

We have various products that are subject to one of two types of collaborative arrangements with certain pharmaceutical companies. One type of arrangement relates to our finished dosage form generics business acting strictly as a distributor and purchasing products at arm's length; in that type of arrangement, there is no profit sharing element. The second type of collaborative arrangement results in a profit sharing agreement between us and a developer and/or manufacturer of a finished dosage form generic drug. Both types of collaborative arrangements are conducted in the ordinary course of business. The nature and purpose of both of these arrangements is for us to act as a distributor of finished dose products to its customers. Under these arrangements, we maintain distribution rights with respect to specific drugs within the U.S. marketplace. Generally, the distribution rights are exclusive rights in the territory. In certain arrangements, we are required to maintain service level minimums including, but not limited to, market share and purchase levels, in order to preserve the exclusive rights. Our accounting policy with respect to these collaborative arrangements calls for us to present the sales and associated costs on a gross basis, with the amounts of the shared profits earned by the partners on sales of these products, if applicable, included in cost of sales in the consolidated statements of income. The shared profits are settled on a quarterly basis. For each of the fiscal years 2018, 2017 and 2016, there was approximately $61,587, $54,454 and $41,036 respectively, of shared profits included in cost of sales, related to these types of collaborative arrangements. In the case of a collaborative arrangement where we act solely as a distributor and purchases product at arm's length, the costs of those purchases are included as a cost of sales similar to any other purchase arrangement.

Inventories

Inventories, which consist principally of finished goods, are stated at the lower of cost (first-in first-out method) and net realizable value. We write down our inventories for estimated excess and obsolete goods by an amount equal to the difference between the carrying cost of the inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. A significant sudden increase in demand for our products could result in a short-term increase in the cost of inventory purchases, while a significant decrease in demand could result in an increase in the excess inventory quantities on-hand. Additionally, we may overestimate or underestimate the demand for our products which would result in our understating or overstating, respectively, the write-down required for excess and obsolete inventory. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and reported operating results.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill is calculated as the excess of the cost of purchased businesses over the value of their underlying net assets. Other indefinite-lived intangible assets principally consist of trademarks. Goodwill and other indefinite-lived

intangible assets are not amortized.

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

Long-Lived Assets

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

Environmental and Other Contingencies

We establish accrued liabilities for environmental matters and other contingencies when it is probable that a liability has been incurred and the amount of the liability can reasonably be estimated. If the contingency is resolved for an amount greater or less than the accrual, or our share of the contingency increases or decreases, or other assumptions relevant to the development of the estimate were to change, we would recognize an additional expense or benefit in income in the period that the determination was made.

Taxes

We account for income taxes in accordance with GAAP. GAAP establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset-and-liability approach to financial accounting and reporting of income taxes.

Deferred tax assets are recorded for net operating losses and temporary differences between the book and tax basis of assets and liabilities expected to produce tax deductions in future periods. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the tax periods in which those deferred tax assets would be deductible. A valuation allowance is taken when necessary to reduce deferred tax assets to the amount expected to be realized. When determining the amount of net deferred tax assets that are more likely than not to be realized, we assess all available positive and negative evidence. This evidence includes, but is not limited to, scheduled reversal of deferred tax liabilities, prior earnings history, projected future earnings, carry-back and carry-forward periods and the feasibility of ongoing tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset. The weight given to the positive and negative evidence is commensurate with the extent the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income (exclusive of reversing taxable temporary differences and carryforwards) to outweigh objective negative evidence such as our recent financial reporting loss for the year ended June 30, 2018. Therefore, we recorded a valuation allowance of $76,500 against our net U.S. deferred tax assets during the year ended June 30, 2018.

The timing of when, and the extent to which, a valuation allowance is recognized, is subjective. Initially, due to the various factors that occurred in the fourth quarter of fiscal 2018, including substantial penalties for delays in supplying products and incurring substantial expenses to address the issues that led to the impairment charges taken during the year, as well as retaining financial and legal advisors to assist us in dealing with the various challenges that the Company is currently facing, including legal advisors retained in connection with various ongoing legal proceedings, we determined to record this valuation allowance during the fourth quarter of fiscal 2018. However, after weighing the information available to us at the time that our third quarter financial statements were issued, we have determined, with the assistance of our advisors, that it is reasonable to conclude that it was more likely than not that a substantial

portion of the valuation allowance should have been recognized in the third quarter of fiscal 2018 rather than the fourth quarter of fiscal 2018. Accordingly, we will amend our most recently filed Quarterly Report on Form 10-Q to restate our third quarter and nine month consolidated financial statements to reflect $71,350 of this non-cash charge as a third quarter event. Such restatement will have no impact on our year-end consolidated financial statements.

Stock-based Compensation

In accordance with GAAP, we are required to record the fair value of stock-based compensation awards as an expense. All restricted stock grants include a service requirement for vesting. We have also granted restricted stock units that include either a performance or market condition. The fair value of restricted stock units with either solely a service requirement or with the combination of service and performance requirements is based on the closing fair market value of our common stock on the date of grant. The fair value of market condition-based awards is estimated at the date of grant using a binomial lattice model or Monte Carlo Simulation. All models incorporate various assumptions such as the risk-free interest rate, expected volatility, expected dividend yield and expected life of the awards. Share-based compensation expense is recognized on a straight-line basis over the service period or over our best estimate of the period over which the performance condition will be met, as applicable.

Results of Operations

Fiscal Year Ended June 30, 2018 Compared to Fiscal Year Ended June 30, 2017

Net Sales by Segment
Year ended June 30,

Segment	2018 Net sales	% of Total		2017 Net sales	% of Total		Comparison 2018 Over/(Under) 2017 $ Change	% Change	
Human Health	$374,514	52.7	%	$315,395	49.4	%	$ 59,119	18.7	%
Pharmaceutical Ingredients	158,854	22.3		157,445	24.7		1,409	0.9	
Performance Chemicals	177,991	25.0		165,478	25.9		12,513	7.6	
Net sales	$711,359	100.0	%	$638,318	100.0	%	$ 73,041	11.4	%

Gross Profit by Segment
Year ended June 30,

Segment	2018 Gross Profit	% of Sales		2017 Gross Profit	% of Sales		Comparison 2018 Over/(Under) 2017 $ Change	% Change	
Human Health	$48,787	13.0	%	$78,109	24.8	%	$ (29,322)	(37.5)	%
Pharmaceutical Ingredients	24,633	15.5		25,474	16.2		(841)	(3.3)	
Performance Chemicals	38,143	21.4		37,209	22.5		934	2.5	
Gross profit	$111,563	15.8	%	$140,792	22.1	%	$ (29,229)	(20.8)	%

Net Sales

Net sales increased $73,041 or 11.4%, to $711,359 for the year ended June 30, 2018, compared with $638,318 for the prior year. We reported sales increases in all three of our business segments.

Human Health

Products that fall within the Human Health segment include finished dosage form generic drugs and nutraceutical products. Net sales for the Human Health segment increased by $59,119 for the year ended June 30, 2018, to $374,514, which represents a 18.7% increase over net sales of $315,395 for the prior year. The primary reason for the increase is due to the acquisition of certain products and related assets of Citron and Lucid on December 21, 2016. Sales from the product acquisition of $197,528 are included in the year ended June 30, 2018 compared to $122,118 included in the year ended June 30, 2017. In addition, there was a rise of $4,371 in sales of nutritional products, sold abroad, primarily by our German subsidiary. These increases in Human Health were offset in part, by a decline in sales of certain currently marketed and pipeline generic products as a result of continued pricing pressure, intense competition and related consolidation of customers and softer than expected contributions from new product launches. In addition, Rising incurred approximately $27,778 in failure to supply penalties charged by certain customers based upon replacement cost or contractual cost. Approximately $14,756 of the failure to supply penalties related to supply challenges with regards to products acquired from Citron. See Part I, Item 1A, Risk Factors - *We may be subject to significant service level penalties in our generics business.*

Rising accrues for what it believes is a reasonable level for Failure to Supply (“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 partners profit split percentage if the charge was caused by shared non-performance; or (iii) another negotiated amount. Rising was reimbursed approximately $9,000 in FTS charges by supplier partners in 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 reserve is recorded if deemed appropriate. As of June 30, 2018, Rising recorded a reserve of $9,200 to reflect uncertainty around the collection of these amounts.

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 by $1,409 for the year ended June 30, 2018, to $158,854, which represents a 0.9% increase from net sales of $157,445 for the prior year. In the first six months of the fiscal year, we experienced regulatory issues, price increases from suppliers, decrease in demand of several API and intermediate products, and new drug import regulations. In the second half of the fiscal year, we benefitted from an increase in demand of API products sold abroad, particularly in Germany, as well as an increase of APIs sold in the

United States. Intermediates also saw an increase of products sold in France due to consumption of consignment stock quantities.

Performance Chemicals

Net sales for the Performance Chemicals segment increased to $177,991 for the year ended June 30, 2018, representing an increase of $12,513 or 7.6%, from net sales of $165,478 for the prior year. The Specialty Chemicals business experienced a rise in sales of $13,901 over the prior year. The rise in sales is partially due to an increase in domestic sales of $8,121 over a broad group of industries we serve and includes increased sales of agricultural and dye intermediates as well as surface agents and coatings. In addition, sales of Specialty Chemicals sold abroad increased $5,780, primarily from increased sales of lubricant and coatings additives. Performance Chemicals sales were impacted by a $1,388 drop in sales of our agricultural protection products, predominantly from a decline in sales of a wide-range insecticide used on various crops including cereals, citrus, cotton, grapes, ornamental grasses and vegetables and an insecticide used on cotton.

Gross Profit

Gross profit decreased $29,229 or 20.8% to $111,563 (15.8% of net sales) for the year ended June 30, 2018, as compared to $140,792 (22.1% of net sales) for the prior year.

Human Health

Human Health segment's gross profit of $48,787 for the year ended June 30, 2018 decreased $29,322, or 37.5%, over the prior year. The gross margin of 13.0% was lower than the prior year's gross margin of 24.8%. 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 failure to supply 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

Gross profit for the year ended June 30, 2018 for the Pharmaceutical Ingredients business decreased by $841 or 3.3% over the prior year. The gross margin of 15.5% for the year ended June 30, 2018 was also lower than the prior year's gross margin of 16.2%. The decrease in gross profit and gross margin was primarily due to product mix on sales of APIs globally, including a drop in reorders of a certain API which typically yields a significantly higher gross margin.

Performance Chemicals

Gross profit for the Performance Chemicals segment increased to $38,143 for the year ended June 30, 2018, versus $37,209 for the prior year, an increase of $934, or 2.5%. The gross margin at 21.4% for the year ended June 30, 2018 was lower than the prior year's gross margin of 22.5%. The increase in gross profit was primarily due to $1,823 rise in gross profit for the Specialty Chemicals business as a result of sales volume increases. This increase in gross profit was partially offset by a decrease of $889 in gross profit for the Agricultural Protection Products business, as a result of the sales volume decline. The drop in gross margin from the prior year is a result of an unfavorable product mix on sales of Specialty Chemical products sold domestically.

Selling, General and Administrative Expenses

SG&A increased $20,036, or 19.6%, to $122,376 for the year ended June 30, 2018 compared to $102,340 for the prior year. As a percentage of sales, SG&A increased to 17.2% for the year ended June 30, 2018 versus 16.0% for the prior year. The increase reflected $20,799 of amortization expense associated with the purchased intangible assets related to the product purchase compared to $11,517 in the prior year. In fiscal 2018, we recorded $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. The increase in SG&A is also due to an increase in consulting fees of $1,821 which includes $911 of consulting services provided by former Citron and Lucid employees in connection with the Transition Services Agreement associated with the product purchase agreement and outsourcing fees related to the accounting processes of Rising Health and Acetris Health. In addition, SG&A rose $4,530 due to an increase in professional fees and $4,221 related primarily to fees for financial advisors including our interim Chief Financial Officer. SG&A also increased due to an increase in payroll and related fringe benefits of $4,171, due primarily to annual merit increases as well as the hiring of certain key management personnel and an increase in environmental remediation charges related to Arsynco of $919. The increase in SG&A was offset in part by a reduction of $2,505 in the contingent consideration liability related to the acquisition of certain assets of Citron. SG&A for the prior year included $8,818 of transaction costs related to the product purchase agreement associated with Citron and Lucid.

Impairment Charges

During the year ended June 30, 2018, the Company recorded impairment charges of $256,266, all of which related to the Rising business segment. The impairment charges consisted of $235,110 of goodwill impairment charges and a $21,156 write-down of other identifiable intangible assets. For additional information regarding these impairment charges, see Note 6 to the Company’s Consolidated Financial Statements. There were no impairment charges recorded in the year ended June 30, 2017.

Research and Development Expenses

Research and development expenses (“R&D”) increased $35 or 0.4% to $7,933 for the year ended June 30, 2018 compared to $7,898 for the prior year. R&D expenses represent investment in our generic finished dosage form product pipeline. The majority of the R&D expenses are milestone based, which will likely cause fluctuation from quarter to quarter.

Operating (Loss) Income

Fiscal 2018 operating loss was $(275,012) compared to operating income of $30,554 in the prior year, a decrease of $305,566. Included in the 2018 fiscal operating loss are impairment charges discussed above.

Interest Expense

Interest expense was $20,855 for the year ended June 30, 2018, an increase of $5,085 from the prior year. The increase was primarily due to interest expense associated with the Second Amended and Restated Credit Agreement, which was entered into on December 21, 2016 to help fund our product acquisition, as well as additional interest associated with the $50,000 unsecured deferred payment obligation related to the product acquisition.

Interest and Other Income, Net

Interest and other income, net was $3,045 for the twelve months ended June 30, 2018, an increase of $468 from the prior period, primarily due to increases in foreign exchange gains.

Provision for Income Taxes

The effective tax rate for the year ended June 30, 2018 was (8.0)% compared to 34.5% for the prior year. During the year ended June 30, 2018, the Company recorded a valuation allowance of $76,500 against its U.S. net deferred tax assets. For additional information, see Notes 12 and 20 to the Company’s Consolidated Financial Statements and “Critical Accounting Policies – Taxes”. In accordance with the TCJA, for the year ended June 30, 2018, we recorded additional income tax expense of $13,739. In addition, we recorded $1,536 of additional income tax expense associated with net tax deficiencies under ASU 2016-09, which was adopted prospectively in the first quarter of fiscal 2018. We expect the substantially lower corporate tax rate reflected in the TCJA to benefit our financial results and cash flow in future periods.

Results of Operations

Fiscal Year Ended June 30, 2017 Compared to Fiscal Year Ended June 30, 2016

Net Sales by Segment

Year ended June 30,

Segment	2017 Net sales	% of Total	2016 Net sales	% of Total	Comparison 2017 Over/(Under) 2016 $ Change	% Change
Human Health	$315,395	49.4 %	$228,035	40.8 %	$ 87,360	38.3 %
Pharmaceutical Ingredients	157,445	24.7	161,011	28.8	(3,566)	(2.2)
Performance Chemicals	165,478	25.9	169,478	30.4	(4,000)	(2.4)
Net sales	$638,318	100.0%	$558,524	100.0%	$ 79,794	14.3 %

Gross Profit by Segment

Year ended June 30,

Segment	2017 Gross Profit	% of Sales	2016 Gross Profit	% of Sales	Comparison 2017 Over/(Under) 2016 $ Change	% Change
Human Health	$78,109	24.8 %	$77,880	34.2 %	$ 229	0.3 %
Pharmaceutical Ingredients	25,474	16.2	28,752	17.9	(3,278)	(11.4)
Performance Chemicals	37,209	22.5	36,153	21.3	1,056	2.9
Gross profit	$140,792	22.1 %	$142,785	25.6 %	$ (1,993)	(1.4)%

Net Sales

Net sales increased $79,794 or 14.3%, to $638,318 for the year ended June 30, 2017, compared with $558,524 for the prior year. We reported a sales increase in our Human Health segment and sales decreases in the Pharmaceutical Ingredients and Performance Chemicals segments.

Human Health

Products that fall within the Human Health segment include finished dosage form generic drugs and nutraceutical products. Net sales for the Human Health segment increased by $87,360 for the year ended June 30, 2017, to $315,395, which represents a 38.3% increase over net sales of $228,035 for the prior year. The primary reason for the increase is due to the acquisition of certain products and related assets of Citron and Lucid. Sales from the product acquisition of $122,118 are included in the year ended June 30, 2017. This increase was offset by a decline in sales of Rising products of $30,585 and a decline of $4,173 in sales of nutritional products. The decrease in Rising sales was primarily driven by increased competition, price erosion on certain products in our generic drugs portfolio and delays in contribution from new product launches. We believe this industry wide pricing pressure on the generic business will continue in the near term. The drop in nutraceutical sales primarily occurred abroad, specifically at our German subsidiary.

Pharmaceutical Ingredients

Net sales for the Pharmaceutical Ingredients segment decreased by $3,566 for the year ended June 30, 2017, to $157,445, which represents a 2.2% decrease from net sales of $161,011 for the prior year. The decrease in sales for this segment was due primarily to a decline in sales of domestic APIs of $2,750, mainly due to reduced orders of a customer-launched API.

Performance Chemicals

Net sales for the Performance Chemicals segment decreased to $165,478 for the year ended June 30, 2017, representing a decrease of $4,000 or 2.4%, from net sales of $169,478 for the prior year. Performance Chemicals sales were impacted by a $4,696 drop in sales of our agricultural protection products, predominantly from a decline in sales of a wide-range insecticide used on various crops including cereals, citrus, cotton, grapes, ornamental grasses and vegetables.

Gross Profit

Gross profit decreased $1,993 or 1.4% to $140,792 (22.1% of net sales) for the year ended June 30, 2017, as compared to $142,785 (25.6% of net sales) for the prior year.

Human Health

Human Health segment's gross profit of $78,109 for the year ended June 30, 2017 increased $229, or .3%, over the prior year. The gross margin of 24.8% was lower than the prior year's gross margin of 34.2%. The increase in Human Health's gross profit was partially related to gross profit of $26,373 on sales from the product acquisition, which is included in the twelve months ended June 30, 2017. This increase was offset by the decline of gross profit and gross margin on Rising sales, primarily driven by increased competition on certain products. In addition, gross profit and gross margin on Rising sales have experienced an unfavorable product mix due to price erosion on certain products, as well as an unfavorable product mix and back orders on certain other products. In addition, $4,502 of step-up in the fair value of the acquired inventory related to the product acquisition was amortized in fiscal 2017.

Pharmaceutical Ingredients

Gross profit for the year ended June 30, 2017 for the Pharmaceutical Ingredients business decreased by $3,278 or 11.4% over the prior year. The gross margin of 16.2% for the year ended June 30, 2017 was also lower than the prior year's gross margin of 17.9%. The decrease in gross profit and gross margin was predominantly the result of the decrease in the sales volume of APIs sold both domestically and abroad, as well as a drop in reorders of a certain API which typically yields a significantly higher gross margin.

Performance Chemicals

Gross profit for the Performance Chemicals segment increased to $37,209 for the year ended June 30, 2017, versus $36,153 for the prior year, an increase of $1,056, or 2.9%. The gross margin at 22.5% for the year ended June 30, 2017 was also higher than the prior year's gross margin of 21.3%. The increase in gross profit and gross margin was due to a $370 rise in gross profit for the Agricultural Protection Products business, as well as an increase of $686 of gross profit on sales of specialty chemicals. In addition, both gross profit and gross margin of the Specialty Chemicals business were favorably impacted by the overall decline in costs of products sourced from China, due to the devaluation of the Chinese Renminbi.

Selling, General and Administrative Expenses

SG&A increased $25,520, or 33.2%, to $102,340 for the year ended June 30, 2017 compared to $76,820 for the prior year. As a percentage of sales, SG&A increased from 13.8% to 16.0% for the year ended June 30, 2017 versus the prior year. SG&A for the current year included $8,818 of transaction costs related to the product purchase agreement associated with Citron and Lucid, as discussed in Note 3 of the consolidated financial statements, as well as $11,517 of amortization expense associated with the purchased intangible assets and $2,030 of consulting services provided by former Citron and Lucid employees in connection with the Transition Services Agreement entered into in connection with the product purchase agreement. The increase in SG&A is also due in part to a $1,528 rise in payroll, fringe benefits, and stock-based compensation expense, reflecting the hiring of certain key management personnel as well as annual merit increases. SG&A also increased due to $552 of separation costs related to the integration of the product acquisition and a $903 environmental remediation charge related to Arsynco. SG&A for the prior year included $1,313 environmental remediation charge related to Arsynco and $1,074 reversal of contingent consideration.

Research and Development Expenses

Research and development expenses ("R&D") decreased $39 or .5% to $7,898 for the year ended June 30, 2017 compared to $7,937 for the prior year. R&D expenses represent investment in our generic finished dosage form product pipeline. The majority of the R&D expenses are milestone based, which will likely cause fluctuation from quarter to quarter.

Operating Income

Fiscal 2017 operating income was $30,554 compared to $58,028 in the prior year, a decrease of $27,474 or 47.3%.

Interest Expense

Interest expense was $15,770 for the year ended June 30, 2017, an increase of $8,773 from the prior year. The increase was primarily due to interest expense associated with the Second Amended and Restated Credit Agreement, which was entered into on December 21, 2016 to help fund our product acquisition, as well as amortization of the debt discount and amortization of debt issuance costs associated with the offering of Convertible Senior Notes during fiscal 2016.

Provision for Income Taxes

The effective tax rate for the year ended June 30, 2017 decreased to 34.5% compared to 35.4% for the prior year. The decrease in the effective tax rate was due to the mix of profits from the lower tax rate jurisdictions of Europe and Asia compared to the Federal tax rate in the United States.

Liquidity and Capital Resources

Cash Flows

At June 30, 2018, we had $100,874 in cash, of which $21,269 was outside the United States, $3,030 in short-term investments, all of which is held outside the United States and $317,398 in debt (including the current portion), all of which is an obligation in the United States. The $21,269 of cash held outside of the United States is fully accessible to meet any liquidity needs of the countries in which we operate. The majority of the cash located outside of the United States is held by our European and Chinese 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 TCJA, we recorded $2,445 of 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.

While significant demands on our cash persist, our cash position at June 30, 2018 increased $45,194 from the amount at June 30, 2017. Operating activities for the year ended June 30, 2018 provided cash of $101,806 for this period, as compared to cash provided of $44,567 for the prior year. The $101,806 resulted from a net loss of $316,121 offset by $315,460 derived from adjustments for non-cash items plus a net $102,467 increase from changes in operating assets and liabilities. The non-cash items included $256,266 in goodwill and intangible asset impairment charges, $32,812 in depreciation and amortization expense, a $1,822 environmental remediation charge, $6,181 for amortization of debt issuance costs and debt discount, and $7,782 in non-cash stock compensation expense, offset in part by $13,643 of deferred income tax expense, $2,173 of earnings on an equity investment in a joint venture and a $2,505 reversal of contingent consideration. Trade accounts receivable decreased $30,182 during the year ended June 30, 2018, due predominantly to a decrease in days sales outstanding, particularly at our Rising subsidiary, as well as an overall decline in sales in the fourth quarter of fiscal 2018. Accounts payable increased by $16,729 due to the timing of payments processed at the end of the year. Accrued expenses and other liabilities increased $52,195 due primarily to a rise in price concessions for our Rising business as well as the timing of income tax payments, particularly as it relates to the TCJA. Other receivables decreased $2,108 due primarily to settlement of other receivables at our Rising subsidiary.

Our cash position at June 30, 2017 decreased $11,148 from the amount at June 30, 2016. Operating activities for the year ended June 30, 2017 provided cash of $44,567 for this period, as compared to cash provided of $31,831 for the prior year. The $44,567 resulted from $11,376 in net income and $39,689 derived from adjustments for non-cash items less a net $6,498 decrease from changes in operating assets and liabilities. The non-cash items included $23,754 in depreciation and amortization expense, $2,336 of earnings on an equity investment in a joint venture, $504 for

deferred income taxes, $5,847 for amortization of debt issuance costs and debt discount, $903 for an environmental remediation charge related to Arsynco, $6,956 in non-cash stock compensation expense and $4,502 in amortization of inventory step-up. Trade accounts receivable increased $34,198 during the year ended June 30, 2017, due predominantly to an increase in days sales outstanding, particularly at our Rising subsidiary, whose customers typically yield a longer payment term due to industry standards and recent consolidation of wholesalers and retail drug chains. In addition, trade accounts receivable increased due to an increase in sales from the fourth quarter of 2016. Inventories increased by $2,958 and accounts payable decreased by $3,097 due primarily to increased inventories held in stock in Europe to support the nutritional and intermediates business. Accrued expenses and other liabilities increased $30,610 due primarily to a rise in price concessions and partnered product liabilities for our Rising business.

Investing activities for the year ended June 30, 2018 used cash of $8,281. This use of cash reflects purchases of investments, intangible assets and property and equipment of $10,345, partially offset by sales of investments in time deposits of $2,064. Investing activities for the year ended June 30, 2017 used cash of $276,378. This use of cash reflects purchases of intangible assets and property and equipment of $5,252, partially offset by sales of investments in time deposits of $909 and payment for net assets acquired of $270,000. Investing activities for the year ended June 30, 2016 used cash of $9,894 for purchases of property and equipment, intangible assets and investments.

Financing activities for the year ended June 30, 2018 used cash of $48,863, primarily for repayment of bank loans of $43,181. Financing activities also included payment of cash dividends of $6,288. Financing activities for the year ended June 30, 2017 provided cash of $220,162. In November 2015, we offered $143,750 of 2% convertible senior notes due 2020 in a private offering. As a direct result of the convertible debt offering, we repaid $42,697 of bank borrowings. Financing activities also included bank borrowings of $275,000, $7,831 payment of cash dividends, payment of deferred financing costs of $5,407 and $546 of excess income tax benefits on stock option exercises and restricted stock. Financing activities for the year ended June 30, 2016 provided cash of $10,855 primarily from the proceeds of convertible senior notes of $143,750 offset by $122,697 of repayment of bank borrowings, $7,084 payment of cash dividends, $13,685 proceeds from the sale of warrants, purchased a hedge for $27,174, paid $5,153 for debt issuance costs and a $1,500 payment of contingent consideration to the former owners of Rising.

Credit Facilities

We have available credit facilities with certain foreign financial institutions. At June 30, 2018, the Company had available lines of credit with foreign financial institutions totaling $1,822, all of which is available for borrowing by the respective foreign territories. We are not subject to any financial covenants under these arrangements.

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 , (ii) ABR Loans or (iii) a combination thereof. As of June 30, 2018, the Company borrowed Revolving Loans (as defined under the A&R Credit Agreement) aggregating $62,000 which loans are Eurodollar Loans at interest rates ranging from 5.00% to 5.02% at June 30, 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 June 30, 2018, the remaining amount outstanding under the Initial Term Loan was $127,500 and was payable as a Eurodollar Loan at an interest rate of 4.83%. The proceeds of the Initial Revolving Commitment and Initial Term Loan were used to partially finance the acquisition of generic products and related assets of Citron and its affiliate Lucid, and pay fees and expenses related thereto. The applicable interest rate margin percentage is subject to adjustment quarterly based upon the Company's senior secured net leverage ratio.

The Initial Term Loan is payable as to principal in nineteen consecutive, equal quarterly installments of $3,750, which commenced on March 31, 2017 and will continue 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 June 30, 2018 and June 30, 2017.

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

The A&R Credit Agreement provides for a security interest in substantially all 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.

As of March 31, 2018, the Company was in compliance with all of its financial covenants except for the maximum total net leverage ratio and the minimum debt service coverage ratio. On May 3, 2018, the Company entered into a Second Amendment and Waiver to the Second Amended and Restated Credit Agreement (the "May 2018 Amendment"). The May 2018 Amendment, among other things, contains a waiver of any event of default under the A&R Credit Agreement arising as a result of the non-compliance by the Company with the Total Net Leverage Ratio and Debt Service Coverage Ratio financial covenants, in each case, solely for the fiscal quarter ended March 31, 2018. The May 2018 Amendment also contains several amendments to the A&R Credit Agreement including, among other things, (a) reducing the available revolving commitment thereunder to $100,000, and (b) during the period commencing on the closing of the May 2018 Amendment and ending on the date the Company demonstrates compliance with each financial covenant set forth in the A&R Credit Agreement for the fiscal quarter ending June 30, 2018 (the "May 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 June 30, 2018, then the May 2018 Amendment Limitation Period shall continue indefinitely): (i) fixing the applicable margin with respect to all loans under the A&R Credit Agreement to the highest level provided under the A&R Credit Agreement, which is 1.50% in the case of ABR Loans and 2.50% in the case of Eurodollar Loans , (ii) fixing the commitment fee on the undrawn revolving commitments under the A&R Credit Agreement to the highest level provided under the A&R Credit Agreement which is 0.40% per annum, (iii) requiring the prior written consent of the Required Lenders (as defined in the A&R Credit Agreement) as a condition precedent to the lenders extending any Loans (as defined in the A&R Credit Agreement) or the issuing banks issuing, amending, renewing or extending any Letter of Credit (as defined in the A&R Credit Agreement), (iv) restricting the amount of dividends or distributions the Company may make to its shareholders to no more than $0.01 per share for the fiscal quarter ended June 30, 2018 and, during the May 2018 Amendment Limitation Period, restricting the Company from making any other dividends or distributions to its shareholders thereafter and (v) restricting the incurrence of certain indebtedness, limiting acquisitions and other investments and imposing certain other restrictions.

In accordance with GAAP, we had classified the indebtedness outstanding under the Company's credit facility as a current liability as of March 31, 2018. This differs from the customary treatment heretofore applicable to indebtedness outstanding under the Company's credit facility, in which only the portion of such indebtedness payable within one year from the balance sheet date has been recorded as a current liability. The May 2018 Amendment applied solely to the non-compliance with certain financial covenants as of March 31, 2018 and thus did not waive non-compliance with any financial covenants as of June 30, 2018. As of March 31, 2018, it was probable that the Company would not comply with certain financial covenants as of June 30, 2018 in the absence of a material change in the Company's operating results. That probability was the factor that caused the Company to reclassify its indebtedness as of March 31, 2018. While the Company believed at that time that if the Company cooperated with its lenders during the ensuing 90 days, it was probable that the lenders would amend the financial covenants prior to June 30, 2018 or grant comparable waivers as of June 30, 2018, that probability was not sufficient to enable the Company to avoid reclassifying its indebtedness as of March 31, 2018.

As of June 30, 2018, the Company was not in compliance with its financial covenants relating to its maximum total net leverage ratio, maximum senior secured net leverage ratio and minimum debt service coverage ratio. As the Company anticipated, the Company and its lenders were able to reach agreement upon an amendment to the A&R Credit Agreement (referred to herein as the "September 2018 Amendment"). The September 2018 Amendment provides 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 under the A&R Credit Agreement by 450 basis points and fixing (during the September 2018 Amendment Limitation Period) the applicable margin with respect to the interest rate on all loans under the A&R Credit Agreement 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 plus Foreign Liquidity 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.

By virtue of the terms of the September 2018 Amendment, at June 30, 2018, the Company’s consolidated balance sheet reflects the customary treatment applicable to indebtedness outstanding under the Company’s credit facility, in which only the portion of such indebtedness payable within one year from the balance sheet date has been recorded as a current liability. See “Working Capital Outlook.”

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 June 30, 2018 is $85,000.

Working Capital Outlook

Working capital was $200,109 at June 30, 2018 compared to $248,750 at June 30, 2017 and $27,419 at March 31, 2018. The decline at March 31, 2018 reflected the classification of all of the debt outstanding under our credit facility as current liabilities. Based on the terms of the September 2018 Amendment to our credit facility, our working capital at June 30, 2018 reflects the classification of the debt outstanding under our credit facility in a manner consistent with the customary treatment at June 30, 2017, in which only the portion of such indebtedness payable within one year of the balance sheet date is recorded as a current liability.

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 will bear 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 June 30, 2018, the Company accrued $683 related to this contingent consideration.

In October 2015, we filed a universal shelf registration statement with the SEC to allow us to potentially offer an indeterminate principal amount and number of securities in the future with a proposed maximum aggregate offering price of up to $200,000. Under the shelf registration statement, we have the flexibility to publicly offer and sell from time to time common stock, debt securities, preferred stock, warrants and units or any combination of such securities.

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 or will be 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.

We currently expect to spend approximately $3,825 for capital expenditures during fiscal 2019. 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 $5,701 over the next twelve months.

In connection with our environmental remediation obligation for Arsynco, we anticipate paying $5,535 towards remediation of the property in the next twelve months, which is included in accrued expenses in our Consolidated Balance Sheet as of June 30, 2018.

As noted above, in order to avoid a default with respect to certain financial covenants under its credit facilities, the Company first entered into the May 2018 Amendment and then entered into the September 2018 Amendment. The September 2018 Amendment, among other things, substantially restricts the Company's borrowing capacity, increases and fixes the pricing with respect to all loans and letters of credit issued and outstanding under the credit facilities and adds an additional financial covenant, in the form of a minimum liquidity covenant. The significant decline in the market price of the Company's common stock, and the uncertainties associated with pending legal proceedings, render it difficult for the Company to access the equity markets at the present time. As described herein, the Company is also incurring substantial expenses to address the business and financial challenges previously discussed. While the Company had over $100,000 in cash as of June 30, 2018, and while its operating businesses continue to generate substantial cash, the current demands upon the Company and its liquidity are significant. We believe that our cash, liquid assets and operating cash flows, together with liquidity that may be generated through our previously announced plans to consider strategic alternatives, will provide us with adequate resources to fund our working capital needs for the next twelve months.

Off-Balance Sheet Arrangements and Commitments and Contingencies

We have no material financial commitments other than those under bank borrowings, convertible debt, operating lease agreements, letters of credit and unconditional purchase obligations. We have certain contractual cash obligations and other commercial commitments that will affect our short and long-term liquidity. At June 30, 2018, we had no significant obligations for capital expenditures.

At June 30, 2018, contractual cash obligations and other commercial commitments were as follows:

	Payments Due and/or				
Contractual Obligations	**Amount of Commitment**				
	(Expiration per Period)				
	Total	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**After 5 years**
Long-term debt obligations (a)	$317,398	$ 14,482	$156,787	$144,549	$1,580
Interest on long term debt obligations (b)	6,708	2,875	3,833	-	-
Deferred payment (c)	58,692	2,500			

The Certifying Officers have also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and their can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART IV

Item 15. ***Exhibits, Financial Statements Schedules, and Reports on Form 8-K***

(a) 1. Financial Statements

The financial statements found in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA for the year ended December 31, 2002 is incorporated herein by reference.

2. Financial Statement Schedules

None

3. Exhibits

Exhibit Number	Exhibit Description
10.59	A Consent to the Assignment of a License to Produce Potable Water dated April 10, 2003 provided to Consolidated Water Company, Ltd. by the Government of the Cayman Islands (incorporated by reference to the exhibit filed as part of Amendment No. 1 to our Registration Statement on Form F-2 dated June 11, 2003, File No. 333-104902).
10.60	Letter from Cayman Islands Ministry of Community Services, Youth Sports and Gender Affairs dated April 10, 2003, to Consolidated Water Company Ltd. (incorporated by reference to the exhibit filed as part of Amendment No. 1 to our Registration Statement on Form F-2 dated June 11, 2003, File No. 333-104902).
10.61	Guaranteed dated February 11, 2003, by Consolidated Water Company Ltd. to The Governor of the Cayman Islands (incorporated by reference to the exhibit filed as part of Amendment No. 1 to our Registration Statement on Form F-2 dated June 11, 2003, File No. 333-104902).
23	Consent of KPMG Chartered Accountants
99.1	Chief Executive Officer Certification under Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Chief Financial Officer Certification under Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CONSOLIDATED WATER CO. LTD.

By: /s/ Frederick McTaggart

Frederick McTaggart
President, Chief Operating Officer
and Chief Financial Officer

Dated: June 11, 2003

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Consolidated Water Co. Ltd. (the Company) on Form 10-K/A for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey M. Parker, the Chief Executive Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this annual report on Form 10-K/A of the Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation**,** to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weakness in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 12, 2003

By: /s/ Jeffrey M. Parker
Name: Jeffrey M. Parker
Title: Chief Executive Officer

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Consolidated Water Co. Ltd. (the Company) on Form 10-K/A for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof, I, Frederick McTaggart, the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this annual report on Form 10-K/A of the Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weakness in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 12, 2003

By: /s/ Frederick McTaggart
Name: Frederick McTaggart
Title: Chief Financial Officer