

ALLIANCE ONE INTERNATIONAL, INC.  
Form 10-Q  
November 04, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2014.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

Alliance One International, Inc.

(Exact name of registrant as specified in its charter)

Virginia

001-13684

54-1746567

\_\_\_\_\_  
(State or other jurisdiction of incorporation)

\_\_\_\_\_  
(Commission File Number)

\_\_\_\_\_  
(I.R.S. Employer Identification No.)

8001 Aerial Center Parkway  
Morrisville, NC 27560-8417  
(Address of principal executive offices)

(919) 379-4300  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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.

Large accelerated filer   
filer

Accelerated

Non-accelerated filer

Smaller reporting company

]

(Do not check if a smaller reporting company)

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

Yes

No

As of October 31, 2014, the registrant had 88,407,399 shares outstanding of Common Stock (no par value) excluding 7,853,121 shares owned by a wholly owned subsidiary.

- 1 -

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Alliance One International, Inc. and Subsidiaries

Table of Contents

|  | Page No. |
|--|----------|
| Part I. Financial Information  |          |
| Item 1. Financial Statements (Unaudited)   |          |
| Condensed Consolidated Statements of Operations<br>Three and Six Months Ended September 30, 2014 and 2013                  | 3        |
| Condensed Consolidated Statements of Comprehensive Income (Loss)<br>Three and Six Months Ended September 30, 2014 and 2013 | 4        |
| Condensed Consolidated Balance Sheets<br>September 30, 2014 and 2013 and March 31, 2014                                    | 5        |
| Condensed Statements of Consolidated Stockholders' Equity<br>Six Months Ended September 30, 2014 and 2013                  | 6        |
| Condensed Consolidated Statements of Cash Flows<br>Six Months Ended September 30, 2014 and 2013                            | 7        |
| Notes to Condensed Consolidated Financial Statements   | 8 – 23   |
| Item 2. Management's Discussion and Analysis<br>of Financial Condition and Results of Operations                           | 24 – 35  |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk   | 35       |
| Item 4. Controls and Procedures  | 35 – 36  |
| Part II. Other Information   |          |
| Item 1. Legal Proceedings  | 36       |
| Item 1A. Risk Factors  | 36       |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  | 36       |
| Item 3. Defaults Upon Senior Securities  | 36       |
| Item 4. <u>Mine Safety Disclosures</u>   | 36       |
| Item 5. Other Information  | 36       |

|                   |    |
|-------------------|----|
| Item 6. Exhibits  | 36 |
| Signature         | 37 |
| Index of Exhibits | 38 |

## Part I. Financial Information

## Item 1. Financial Statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 Three and Six Months Ended September 30, 2014 and 2013  
 (Unaudited)

| (in thousands, except per share data)   | Three Months Ended<br>September 30, |            | Six Months Ended<br>September 30, |              |
|---|-------------------------------------|------------|-----------------------------------|--------------|
|   | 2014                                | 2013       | 2014                              | 2013         |
| Sales and other operating revenues  | \$589,815                           | \$700,680  | \$838,832                         | \$1,084,567  |
| Cost of goods and services sold   | 518,332                             | 616,710    | 732,245                           | 972,103      |
| Gross profit  | 71,483                              | 83,970     | 106,587                           | 112,464      |
| Selling, general and administrative expenses  | 36,000                              | 34,641     | 67,325                            | 70,132       |
| Other income (expense)  | 327                                 | (499)      | )1,127                            | 745          |
| Restructuring and asset impairment charges  | 500                                 | 580        | 500                               | 2,776        |
| Operating income  | 35,310                              | 48,250     | 39,889                            | 40,301       |
| Debt retirement expense   | —                                   | 55,582     | —                                 | 55,599       |
| Interest expense (includes debt amortization of \$2,010 and \$2,691 for the three months and \$3,562 and \$5,201 for the six months in 2014 and 2013, respectively) | 28,495                              | 31,684     | 55,417                            | 60,527       |
| Interest income   | 1,574                               | 1,859      | 2,925                             | 3,845        |
| Income (loss) before income taxes and other items   | 8,389                               | (37,157)   | )(12,603                          | )(71,980 )   |
| Income tax expense  | 11,345                              | 10,291     | 8,431                             | 11,159       |
| Equity in net income of investee companies  | 1,039                               | 1,362      | 554                               | 320          |
| Net loss  | (1,917                              | )(46,086   | )(20,480                          | )(82,819 )   |
| Less: Net income (loss) attributable to noncontrolling interests  | (7                                  | )(104      | )48                               | 25           |
| Net loss attributable to Alliance One International, Inc.   | \$(1,910                            | )\$(45,982 | )\$(20,528                        | )\$(82,844 ) |
|   |                                     |            |                                   |              |
| Loss per share:   |                                     |            |                                   |              |
| Basic   | \$ (.02                             | ) \$(.53   | ) \$(.23                          | ) \$(.95 )   |
| Diluted   | \$ (.02                             | ) \$(.53   | ) \$(.23                          | ) \$(.95 )   |
|   |                                     |            |                                   |              |
| Weighted average number of shares outstanding:  |                                     |            |                                   |              |
| Basic   | 88,233                              | 87,570     | 88,113                            | 87,522       |
| Diluted   | 88,233                              | 87,570     | 88,113                            | 87,522       |

See notes to condensed consolidated financial statements



Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 Three and Six Months Ended September 30, 2014 and 2013  
 (Unaudited)

| (in thousands)   | Three Months Ended<br>September 30, |            | Six Months Ended<br>September 30, |              |
|--|-------------------------------------|------------|-----------------------------------|--------------|
|  | 2014                                | 2013       | 2014                              | 2013         |
| Net loss   | \$(1,917                            | )\$(46,086 | )\$(20,480                        | )\$(82,819 ) |
| Other comprehensive income (loss), net of tax:                       |                                     |            |                                   |              |
| Currency translation adjustment                                      | (4,287                              | )1,861     | (4,079                            | )2,610       |
| Defined benefit pension amounts reclassified to income               | 413                                 | 522        | 827                               | 1,044        |
| Total other comprehensive income (loss), net of tax                  | (3,874                              | )2,383     | (3,252                            | )3,654       |
| Total comprehensive loss   | (5,791                              | )\$(43,703 | )\$(23,732                        | )\$(79,165 ) |
| Comprehensive income (loss) attributable to noncontrolling interests | (7                                  | )\$(104    | )48                               | 25           |
| Comprehensive loss attributable to Alliance One International, Inc.  | \$(5,784                            | )\$(43,599 | )\$(23,780                        | )\$(79,190 ) |

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

| (in thousands)  | September 30,<br>2014 | September 30,<br>2013 | March 31,<br>2014 |
|---|-----------------------|-----------------------|-------------------|
| <b>ASSETS</b>   |                       |                       |                   |
| Current assets  |                       |                       |                   |
| Cash and cash equivalents                               | \$ 109,607            | \$ 85,430             | \$ 234,742        |
| Trade and other receivables, net                        | 233,785               | 319,539               | 176,459           |
| Accounts receivable, related parties                    | 66,191                | 99,053                | 44,869            |
| Inventories   | 976,416               | 984,773               | 760,607           |
| Advances to tobacco suppliers                           | 67,371                | 117,577               | 49,598            |
| Recoverable income taxes                                | 5,554                 | 7,857                 | 4,789             |
| Current deferred taxes                                  | 10,853                | 24,897                | 10,013            |
| Prepaid expenses  | 28,597                | 33,048                | 27,667            |
| Other current assets                                    | 11,169                | 12,656                | 12,053            |
| Total current assets                                    | 1,509,543             | 1,684,830             | 1,320,797         |
| Other assets  |                       |                       |                   |
| Investments in unconsolidated affiliates                | 52,199                | 24,482                | 50,876            |
| Goodwill and other intangible assets                    | 33,550                | 29,248                | 34,725            |
| Long-term recoverable income taxes                      | 5,834                 | —                     | 5,423             |
| Deferred income taxes                                   | 36,567                | 49,114                | 40,927            |
| Other deferred charges                                  | 18,712                | 22,739                | 19,038            |
| Other noncurrent assets                                 | 33,496                | 44,389                | 42,255            |
|   | 180,358               | 169,972               | 193,244           |
| Property, plant and equipment, net                      | 255,759               | 265,840               | 261,246           |
|   | \$ 1,945,660          | \$ 2,120,642          | \$ 1,775,287      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>             |                       |                       |                   |
| Current liabilities                                     |                       |                       |                   |
| Notes payable to banks                                  | \$ 581,532            | \$ 668,919            | \$ 212,669        |
| Accounts payable  | 55,429                | 49,282                | 115,177           |
| Due to related parties                                  | 39,640                | 27,907                | 63,384            |
| Advances from customers                                 | 58,596                | 113,484               | 22,133            |
| Accrued expenses and other current liabilities          | 96,049                | 91,371                | 72,694            |
| Income taxes  | 9,238                 | 15,484                | 10,784            |
| Long-term debt current                                  | 3,014                 | 56,173                | 4,556             |
| Total current liabilities                               | 843,498               | 1,022,620             | 501,397           |
| Long-term debt  |                       |                       |                   |
|   | 755,737               | 721,652               | 900,363           |
| Deferred income taxes                                   | 5,410                 | 6,060                 | 5,788             |
| Liability for unrecognized tax benefits                 | 9,617                 | 8,662                 | 9,436             |
| Pension, postretirement and other long-term liabilities | 76,785                | 97,685                | 81,415            |
|   | 847,549               | 834,059               | 997,002           |
| Commitments and contingencies                           |                       |                       |                   |
| Stockholders' equity                                    | September 30,<br>2014 | September 30,<br>2013 | March 31,<br>2014 |
| Common Stock—no par value:                              |                       |                       |                   |
| Authorized shares                                       | 250,000               | 250,000               | 250,000           |
| Issued shares   | 96,261                | 95,692                | 96,012            |
|   | 467,139               | 462,011               | 465,682           |



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|  |             |             |             |   |
|--|-------------|-------------|-------------|---|
| Retained deficit   | (174,516    | ) (150,173  | ) (153,988  | ) |
| Accumulated other comprehensive loss                           | (41,353     | ) (51,538   | ) (38,101   | ) |
| Total stockholders' equity of Alliance One International, Inc. | 251,270     | 260,300     | 273,593     |   |
| Noncontrolling interests                                       | 3,343       | 3,663       | 3,295       |   |
| Total equity   | 254,613     | 263,963     | 276,888     |   |
|  | \$1,945,660 | \$2,120,642 | \$1,775,287 |   |

See notes to condensed consolidated financial statements

- 5 -

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Alliance One International, Inc. and Subsidiaries  
 CONDENSED STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY  
 (Unaudited)

Attributable to Alliance One International, Inc.

| (in thousands)                            | Common<br>Stock | Retained<br>Deficit | Accumulated Other<br>Comprehensive Loss |                     |                                 | Total<br>Equity |
|---|-----------------|---------------------|---|---------------------|---------------------------------|-----------------|
|   |                 |                     | Currency<br>Translation<br>Adjustment   | Pensions,<br>of Tax | Net Noncontrolling<br>Interests |                 |
| Balance, March 31, 2013                   | \$460,914       | \$(67,329)          | \$(5,724)                               | \$(49,468)          | \$3,638                         | \$342,031       |
| Net income (loss)                         | —               | (82,844)            | —                                       | —                   | 25                              | (82,819)        |
| Stock-based compensation                  | 1,097           | —                   | —                                       | —                   | —                               | 1,097           |
| Other comprehensive income, net<br>of tax | —               | —                   | 2,610                                   | 1,044               | —                               | 3,654           |
| Balance, September 30, 2013               | \$462,011       | \$(150,173)         | \$(3,114)                               | \$(48,424)          | \$3,663                         | \$263,963       |
| Balance, March 31, 2014                   | \$465,682       | \$(153,988)         | \$(1,640)                               | \$(36,461)          | \$3,295                         | \$276,888       |
| Net income (loss)                         | —               | (20,528)            | —                                       | —                   | 48                              | (20,480)        |
| Stock-based compensation                  | 1,457           | —                   | —                                       | —                   | —                               | 1,457           |
| Other comprehensive loss, net of<br>tax   | —               | —                   | (4,079)                                 | 827                 | —                               | (3,252)         |
| Balance, September 30, 2014               | \$467,139       | \$(174,516)         | \$(5,719)                               | \$(35,634)          | \$3,343                         | \$254,613       |

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Six Months Ended September 30, 2014 and 2013  
 (Unaudited)

| (in thousands)  | September 30,<br>2014 | September 30,<br>2013 |
|---|-----------------------|-----------------------|
| <b>Operating activities</b>   |                       |                       |
| Net loss  | \$(20,480             | ) \$(82,819 )         |
| Adjustments to reconcile net loss to net cash used by operating activities: |                       |                       |
| Depreciation and amortization   | 14,812                | 17,212                |
| Debt amortization/interest  | 4,220                 | 6,810                 |
| Debt retirement costs   | —                     | 55,599                |
| Loss on foreign currency transactions                                       | 3,840                 | 11,075                |
| Restructuring and asset impairment charges                                  | 500                   | 2,776                 |
| Bad debt expense  | 4,266                 | 64                    |
| Stock-based compensation  | 1,738                 | 1,712                 |
| Changes in operating assets and liabilities, net                            | (343,610              | ) (182,574 )          |
| Other, net  | 355                   | 323                   |
| Net cash used by operating activities                                       | (334,359              | ) (169,822 )          |
| <b>Investing activities</b>   |                       |                       |
| Purchases of property, plant and equipment                                  | (14,405               | ) (11,937 )           |
| Proceeds from sale of property, plant and equipment                         | 833                   | 667                   |
| Payments to acquire equity method investments                               | (1,055                | ) —                   |
| Other, net  | (57                   | ) (182 )              |
| Net cash used by investing activities                                       | (14,684               | ) (11,452 )           |
| <b>Financing activities</b>   |                       |                       |
| Net proceeds from short-term borrowings                                     | 378,146               | 307,805               |
| Proceeds from long-term borrowings  | 30,000                | 885,300               |
| Repayment of long-term borrowings   | (176,804              | ) (960,894 )          |
| Debt issuance cost  | (4,963                | ) (21,938 )           |
| Debt retirement costs   | —                     | (34,347 )             |
| Net cash provided by financing activities                                   | 226,379               | 175,926               |
| Effect of exchange rate changes on cash                                     | (2,471                | ) (1,248 )            |
| Decrease in cash and cash equivalents                                       | (125,135              | ) (6,596 )            |
| Cash and cash equivalents at beginning of period                            | 234,742               | 92,026                |
| Cash and cash equivalents at end of period                                  | \$109,607             | \$85,430              |
| <b>Other information:</b>   |                       |                       |
| Cash paid for income taxes  | \$6,940               | \$5,697               |
| Cash paid for interest  | 45,682                | 50,457                |
| Cash received from interest   | (3,055                | ) (5,824 )            |

See notes to condensed consolidated financial statements

- 7 -

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Alliance One International, Inc. and Subsidiaries  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Because of the seasonal nature of the Company's business, the results of operations for any fiscal quarter will not necessarily be indicative of results to be expected for other quarters or a full fiscal year. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of financial position, results of operation and cash flows at the dates and for the periods presented have been included. Included in Operating Income for the six months ended September 30, 2013 is a pretax charge of approximately \$11,000 primarily resulting from reducing the estimate for recoveries of advances to tobacco suppliers in Zambia. The unaudited information included in this Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

On March 26, 2014, the Company sold 51% of a Brazilian subsidiary to China Tobacco and reported its remaining 49% interest in the subsidiary under the equity method of accounting at March 31, 2014. As a result the September 30, 2014 Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows do not include the assets, liabilities, results of operations and cash flows of this subsidiary which were included in the September 30, 2013 financial statements.

Taxes Collected from Customers

Certain subsidiaries are subject to value added taxes on local sales. These amounts have been included in sales and cost of sales and were \$8,247 and \$3,431 for the three months ended September 30, 2014 and 2013, respectively and \$14,488 and \$10,962 for the six months ended September 30, 2014 and 2013, respectively.

Other Deferred Charges

Other deferred charges are primarily deferred financing costs that are amortized over the life of the debt.

New Accounting Standards

Recently Adopted Accounting Pronouncements

On April 1, 2014, the Company adopted new accounting guidance on the financial presentation of an unrecognized tax benefit when a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward exists. Companies are required to report an unrecognized tax benefit as a reduction in a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The adoption of this new accounting guidance had no material impact on the Company's financial condition or results of operations.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that outlines a single comprehensive model to use in accounting for revenue from contracts with customers. The primary objective of this accounting guidance is to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This accounting guidance is effective for the Company on April 1, 2017. The Company is currently evaluating the impact of this new guidance and it may have a material impact on its financial condition or results of operations.

In August 2014, the FASB issued new accounting guidance on determining when and how to disclose going concern uncertainties in the financial statements. The primary objective of this accounting guidance is for

management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This accounting guidance is effective for the Company on March 31, 2017. The Company is currently evaluating the impact of this new guidance and does not expect it to have a material impact on its financial condition or results of operations.

Alliance One International, Inc. and Subsidiaries

## 2. INCOME TAXES

### Accounting for Uncertainty in Income Taxes

As of September 30, 2014, the Company's unrecognized tax benefits totaled \$10,180, of which \$7,678 would impact the Company's effective tax rate if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of September 30, 2014, accrued interest and penalties totaled \$829 and \$1,111 respectively.

The Company expects to continue accruing interest expense related to the unrecognized tax benefits described above. Additionally, the Company may be subject to fluctuations in the unrecognized tax liability due to currency exchange rate movements.

The Company does not foresee any reasonably possible changes in the unrecognized tax benefits in the next twelve months but acknowledges circumstances can change due to unexpected developments in the law. In certain jurisdictions, tax authorities have challenged positions that the Company has taken that resulted in recognizing benefits that are material to its financial statements. The Company believes it is more likely than not that it will prevail in these situations and accordingly has not recorded liabilities for these positions. The Company expects the challenged positions to be settled at a time greater than twelve months from its balance sheet date.

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of September 30, 2014, the Company's earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2009. Open tax years in state and foreign jurisdictions generally range from three to six years.

### Provision for the Six Months Ended September 30, 2014

The effective tax rate used for the six months ended September 30, 2014 was (66.9)% compared to (15.5)% for the six months ended September 30, 2013. The effective tax rates for these periods are based on the current estimate of full year results including the effect of taxes related to discrete events which are recorded in the interim period in which they occur. The difference in the effective tax rate in one year compared to another is the result of many factors that include, but are not limited to, differences in forecasted income for the respective years, differences in year-to-date income for the periods, certain losses for which no tax benefit is recorded; and, differences between discrete items recognized for the periods that include changes in valuation allowances, net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. The Company expects the tax rate for the year ended March 31, 2015 to be 97.7% after absorption of discrete items.

For the six months ended September 30, 2014, the Company recorded a discrete event adjustment expense of \$3,899, bringing the effective tax rate estimated for the six months of (36.0)% to (66.9)%. This discrete event adjustment expense relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. For the six months ended September 30, 2013, the Company recorded a discrete event adjustment expense of \$6,722, bringing the effective tax rate estimated for the six months of (6.2)% to (15.5)%. This discrete event adjustment expense relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. The significant difference in the estimated effective tax rate for the six months ended September 30, 2014 from the U.S. federal statutory rate is primarily due to net exchange losses on income tax accounts, foreign income tax rates lower than the U.S. rate and certain losses for which no benefit is currently recorded.

## 3. GUARANTEES

The Company and certain of its foreign subsidiaries guarantee bank loans to suppliers to finance their crops. Under longer-term arrangements, the Company may also guarantee financing on suppliers' construction of curing barns or other tobacco production assets. Guaranteed loans are generally repaid concurrent with the delivery of tobacco to the Company. The Company is obligated to repay any guaranteed loan should the supplier default. If default occurs, the Company has recourse against the supplier. The Company also guarantees bank loans of certain unconsolidated

subsidiaries in Asia, Brazil and Zimbabwe.

The following table summarizes amounts guaranteed and the fair value of those guarantees:

|                                     | September 30, 2014 | September 30, 2013 | March 31, 2014 |
|-------------------------------------|--------------------|--------------------|----------------|
| Amounts guaranteed (not to exceed)  | \$250,455          | \$126,608          | \$301,870      |
| Amounts outstanding under guarantee | 208,316            | 121,634            | 218,847        |
| Fair value of guarantees            | 7,272              | 6,023              | 7,344          |

Of the guarantees outstanding at September 30, 2014, all expire within one year. The fair value of guarantees is recorded in Accrued Expenses and Other Current Liabilities in the Condensed Consolidated Balance Sheets and included in crop costs except for Zimbabwe and Brazil which is included in Accounts Receivable, Related Parties.



## Alliance One International, Inc. and Subsidiaries

## 3. GUARANTEES (continued)

In Brazil, certain suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Terms of rural credit financing are such that repayment is due to local banks based on contractual due dates. As of September 30, 2014 and 2013 and March 31, 2014, respectively, the Company had balances of \$1,368, \$3,200 and \$26,076 that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the Condensed Consolidated Balance Sheets.

## 4. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

The Company previously implemented several strategic initiatives in response to shifts in supply and demand balances and changing business models of its customers. These initiatives were substantially complete at March 31, 2014. The Company continues to focus on improving factory efficiencies and other core components of its business. As part of this focus, the Company agreed to a joint processing venture in Turkey during the three months ended June 30, 2013. As a result, the Company recorded pretax charges of \$1,893 in connection with the reduction in workforce including the effect on the Company's defined benefit pension plans of \$1,261. An asset impairment charge of \$303 was recorded for certain processing equipment in connection with the new venture. During the three months ended September 30, 2013, employee separation charges of \$580 were incurred as the Company continues to respond to changes in its business. As a result of the construction of a new U.S. cut rag facility with state of the art machinery and equipment, the Company recorded a \$500 asset impairment charge for certain machinery and equipment at the previous facility during the three months ended September 30, 2014.

The following table summarizes the restructuring charges recorded in the Company's reporting segments during the three months and six months ended September 30, 2014 and 2013, respectively:

|   | Three Months Ended<br>September 30, |          | Six Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|-----------------------------------|----------|
|   | 2014                                | 2013     | 2014                              | 2013     |
| Restructuring and Asset Impairment Charges  |                                     |          |                                   |          |
| Employee separation and other cash charges: |                                     |          |                                   |          |
| Beginning balance                           | \$ 101                              | \$ 1,144 | \$ 397                            | \$ 668   |
| Period charges:                             |                                     |          |                                   |          |
| Severance charges                           | —                                   | 580      | —                                 | 1,212    |
| Total period charges                        | —                                   | 580      | —                                 | 1,212    |
| Payments through September 30               | (101                                | )(676    | )(397                             | )(832    |
| Ending balance September 30                 | \$ —                                | \$ 1,048 | \$ —                              | \$ 1,048 |
| Asset impairment and other non-cash charges | \$ 500                              | \$ —     | \$ 500                            | \$ 1,564 |
| Total restructuring charges for the period  | \$ 500                              | \$ 580   | \$ 500                            | \$ 2,776 |

|  | Three Months Ended<br>September 30, |       | Six Months Ended<br>September 30, |      |
|--|-------------------------------------|-------|-----------------------------------|------|
|  | 2014                                | 2013  | 2014                              | 2013 |
| Employee Separation and Other Cash Charges |                                     |       |                                   |      |
| Beginning balance:                         |                                     |       |                                   |      |
| South America                              | —                                   | —     | —                                 | —    |
| Value added services                       | —                                   | —     | —                                 | —    |
| Other regions                              | 101                                 | 1,144 | 397                               | 668  |
| Period charges:                            |                                     |       |                                   |      |
| South America                              | —                                   | 433   | —                                 | 433  |
| Value added services                       | —                                   | —     | —                                 | —    |
| Other regions                              | —                                   | 147   | —                                 | 779  |

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|                               |        |         |         |         |   |
|-------------------------------|--------|---------|---------|---------|---|
| Payments through September 30 | \$(101 | )\$(676 | )\$(397 | )\$(832 | ) |
| South America                 | —      | (433    | )—      | (433    | ) |
| Value added services          | —      | —       | —       | —       |   |
| Other regions                 | (101   | )243    | )397    | )399    | ) |
| Ending balance September 30   | \$—    | \$1,048 | \$—     | \$1,048 |   |
| South America                 | —      | —       | —       | —       |   |
| Value added services          | —      | —       | —       | —       |   |
| Other regions                 | —      | 1,048   | —       | 1,048   |   |

- 10 -

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## Alliance One International, Inc. and Subsidiaries

## 5. GOODWILL AND INTANGIBLES

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not subject to amortization, but rather is tested for impairment annually or whenever events and circumstances indicate that an impairment may have occurred. The Company has chosen the first day of the last quarter of its fiscal year as the date to perform its annual goodwill impairment test.

The Company has no intangible assets with indefinite useful lives. It does have intangible assets which are amortized. The following table summarizes the changes in the Company's goodwill and other intangibles for the three months and six months ended September 30, 2014 and 2013:

|  | Goodwill (1) | Amortizable Intangibles          |  |  | Total     |
|--|--------------|----------------------------------|--|--|-----------|
|  |              | Customer Relationship Intangible | Production and Supply Contract Intangibles | Internally Developed Software Intangible |           |
| Weighted average remaining useful life in years as of September 30, 2014 |              | 10.50                            | 6.25                                       | —  |           |
| March 31, 2013 balance   |              |                                  |  |  |           |
| Gross carrying amount  | \$ 2,794     | \$ 33,700                        | \$ 7,893                                   | \$ 16,918                                | \$ 61,305 |
| Accumulated amortization   | —            | (13,269)                         | (3,657)                                    | (12,908)                                 | (29,834)  |
| Net March 31, 2013   | 2,794        | 20,431                           | 4,236                                      | 4,010                                    | 31,471    |
| Additions  | —            | —                                | —  | 221                                      | 221       |
| Amortization expense   | —            | (421)                            | (196)                                      | (806)                                    | (1,423)   |
| Net June 30, 2013  | 2,794        | 20,010                           | 4,040                                      | 3,425                                    | 30,269    |
| Additions  | —            | —                                | —  | 342                                      | 342       |
| Amortization expense   | —            | (422)                            | (237)                                      | (704)                                    | (1,363)   |
| Net September 30, 2013   | 2,794        | 19,588                           | 3,803                                      | 3,063                                    | 29,248    |
| Additions  | —            | —                                | 7,000                                      | 323                                      | 7,323     |
| Amortization expense   | —            | (842)                            | (662)                                      | (342)                                    | (1,846)   |
| Net March 31, 2014   | 2,794        | 18,746                           | 10,141                                     | 3,044                                    | 34,725    |
| Additions  | —            | —                                | —  | 269                                      | 269       |
| Amortization expense   | —            | (421)                            | (146)                                      | (192)                                    | (759)     |
| Net June 30, 2014  | 2,794        | 18,325                           | 9,995                                      | 3,121                                    | 34,235    |
| Additions  | —            | —                                | —  | 126                                      | 126       |
| Amortization expense   | —            | (422)                            | (187)                                      | (202)                                    | (811)     |
| Net September 30, 2014   | \$ 2,794     | \$ 17,903                        | \$ 9,808                                   | \$ 3,045                                 | \$ 33,550 |

(1) Goodwill of \$1,592 relates to the Other Regions segment and \$1,202 relates to the Value Added Services segment.

The following table summarizes the estimated future intangible asset amortization expense:

| For Fiscal Years Ended                 | Customer Relationship Intangible | Production and Supply Contract Intangible | Internally Developed Software Intangible* | Total     |
|--|----------------------------------|---|---|-----------|
| October 1, 2014 through March 31, 2015 | 842                              | 840                                       | 861                                       | \$ 2,543  |
| 2016                                   | 1,685                            | 2,319                                     | 855                                       | 4,859     |
| 2017                                   | 1,685                            | 1,405                                     | 680                                       | 3,770     |
| 2018                                   | 1,685                            | 1,403                                     | 451                                       | 3,539     |
| 2019                                   | 1,685                            | 1,397                                     | 198                                       | 3,280     |
| Subsequent years                       | 10,321                           | 2,444                                     | —   | 12,765    |
|  | \$ 17,903                        | \$ 9,808                                  | \$ 3,045                                  | \$ 30,756 |

\* Estimated amortization expense for the internally developed software is based on costs accumulated as of September 30, 2014. These estimates will change as new costs are incurred and until the software is placed into service in all locations.

- 11 -

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## Alliance One International, Inc. and Subsidiaries

## 6. VARIABLE INTEREST ENTITIES

The Company holds variable interests in seven joint ventures that are accounted for under the equity method of accounting. These joint ventures primarily procure or process inventory on behalf of the Company and the other joint venture partners. The variable interests relate to equity investments and advances made by the Company to the joint ventures. In addition, the Company also guarantees two of its joint venture's borrowings which also represents a variable interest in those joint ventures. The Company is not the primary beneficiary, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities as a result of the entities' management and board of directors structure. Therefore, these entities are not consolidated. At September 30, 2014 and 2013, and March 31, 2014, the Company's investment in these joint ventures was \$51,183, \$23,462, and \$49,860, respectively and is classified as Investments in Unconsolidated Affiliates in the Condensed Consolidated Balance Sheets. The Company's advances to these joint ventures at September 30, 2014 and March 31, 2014 were \$4,697 and \$10, respectively and are classified as Accounts Receivable, Related Parties in the Condensed Consolidated Balance Sheets. There were no advances at September 30, 2013. The Company guaranteed an amount to two joint ventures not to exceed \$114,977, \$18,418 and \$142,904 at September 30, 2014 and 2013, and March 31, 2014, respectively. The investments, advances and guarantee in these joint ventures represent the Company's maximum exposure to loss.

## 7. SEGMENT INFORMATION

The Company purchases, processes, sells and stores leaf tobacco. Tobacco is purchased in more than 35 countries and shipped to approximately 90 countries. The sales, logistics and billing functions of the Company are primarily concentrated in service centers outside of the producing areas to facilitate access to its major customers. Within certain quality and grade constraints, tobacco is fungible and, subject to these constraints, customers may choose to fulfill their needs from any of the areas where the Company purchases tobacco.

Selling, logistics, billing, and administrative overhead, including depreciation, which originates primarily from the Company's corporate and sales offices, are allocated to the segments based upon segment operating income. The Company reviews performance data from the purchase of the product or the service provided through sale based on the source of the product or service and all intercompany transactions are allocated to the operating segment that either purchases or processes the tobacco.

On March 26, 2014, the Company sold 51% of a Brazilian subsidiary to China Tobacco and reported its remaining 49% interest under the equity method accounting at March 31, 2014. As a result, the information for the three months and six months ended September 30, 2014 does not include the assets or results of operations for this subsidiary which were included in the information for the three months and six months ended September 30, 2013.

The following table presents the summary segment information for the three months and six months ended September 30, 2014 and 2013:

|                                     | Three Months Ended<br>September 30, |            | Six Months Ended<br>September 30, |              |
|-------------------------------------|-------------------------------------|------------|-----------------------------------|--------------|
|                                     | 2014                                | 2013       | 2014                              | 2013         |
| Sales and other operating revenues: |                                     |            |                                   |              |
| South America                       | \$ 238,040                          | \$ 346,604 | \$ 300,163                        | \$ 533,882   |
| Value added services                | 35,781                              | 29,857     | 67,224                            | 60,937       |
| Other regions                       | 315,994                             | 324,219    | 471,445                           | 489,748      |
| Total revenue                       | \$ 589,815                          | \$ 700,680 | \$ 838,832                        | \$ 1,084,567 |
| Operating income:                   |                                     |            |                                   |              |
| South America                       | \$ 12,645                           | \$ 22,690  | \$ 19,292                         | \$ 29,542    |
| Value added services                | 917                                 | 2,957      | 3,793                             | 5,529        |
| Other regions                       | 21,748                              | 22,603     | 16,804                            | 5,230        |

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|   |          |            |            |            |
|---|----------|------------|------------|------------|
| Total operating income                            | 35,310   | 48,250     | 39,889     | 40,301     |
| Debt retirement expense                           | —        | 55,582     | —          | 55,599     |
| Interest expense                                  | 28,495   | 31,684     | 55,417     | 60,527     |
| Interest income                                   | 1,574    | 1,859      | 2,925      | 3,845      |
| Income (loss) before income taxes and other items | \$ 8,389 | \$(37,157) | \$(12,603) | \$(71,980) |

| Analysis of Segment Assets | September 30,<br>2014 | September 30, 2013 | March 31, 2014 |
|----------------------------|-----------------------|--------------------|----------------|
| Segment assets:            |                       |                    |                |
| South America              | \$ 489,557            | \$ 661,696         | \$ 457,585     |
| Value added services       | 195,010               | 209,574            | 194,562        |
| Other regions              | 1,261,093             | 1,249,372          | 1,123,140      |
| Total assets               | \$ 1,945,660          | \$ 2,120,642       | \$ 1,775,287   |

- 12 -

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## Alliance One International, Inc. and Subsidiaries

## 8. EARNINGS PER SHARE

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 7,853 at September 30, 2014 and 2013. This subsidiary waives its right to receive dividends and it does not have the right to vote.

Certain potentially dilutive options were not included in the computation of earnings per diluted share because their exercise prices were greater than the average market price of the shares of common stock during the period and their effect would be antidilutive. These shares totaled 6,789 at a weighted average exercise price of \$6.06 per share at September 30, 2014 and 6,888 at a weighted average exercise price of \$6.04 per share at September 30, 2013.

In connection with the offering of the Company's 5 1/2% Convertible Senior Subordinated Notes due 2014, issued on July 2, 2009 (the "Convertible Notes"), the Company entered into privately negotiated convertible note hedge transactions (the "convertible note hedge transactions") equal to the number of shares that underlie the Company's Convertible Notes. These convertible note hedge transactions were designed to reduce the potential dilution of the Company's common stock upon conversion of the Convertible Notes in the event that the value per share of common stock exceeded the initial conversion price of \$5.0280 per share. These shares were not included in the computation of earnings per diluted share because their inclusion would be antidilutive. The Convertible Notes matured during the three months ended September 30, 2014.

The following table summarizes the computation of earnings per share for the three months and six months ended September 30, 2014 and 2013, respectively.

| (in thousands, except per share data)  | Three Months Ended<br>September 30, |             | Six Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|-----------------------------------|-------------|
|  | 2014                                | 2013        | 2014                              | 2013        |
| <b>BASIC LOSS</b>  |                                     |             |                                   |             |
| Net loss attributable to Alliance One International, Inc.  | \$(1,910 )                          | \$(45,982 ) | \$(20,528 )                       | \$(82,844 ) |
| <b>SHARES</b>  |                                     |             |                                   |             |
| Weighted average number of shares outstanding  | 88,233                              | 87,570      | 88,113                            | 87,522      |
| <b>BASIC LOSS PER SHARE</b>  | \$ (.02 )                           | \$ (.53 )   | \$ (.23 )                         | \$ (.95 )   |
| <b>DILUTED LOSS</b>  |                                     |             |                                   |             |
| Net loss attributable to Alliance One International, Inc.  | \$(1,910 )                          | \$(45,982 ) | \$(20,528 )                       | \$(82,844 ) |
| Plus interest expense on 5 1/2% convertible notes,<br>net of tax   | — *                                 | — *         | — *                               | — *         |
| Net loss attributable to Alliance One International, Inc.<br>as adjusted   | \$(1,910 )                          | \$(45,982 ) | \$(20,528 )                       | \$(82,844 ) |
| <b>SHARES</b>  |                                     |             |                                   |             |
| Weighted average number of common shares<br>outstanding  | 88,233                              | 87,570      | 88,113                            | 87,522      |
| Plus: Restricted shares issued and shares applicable to<br>stock options and restricted stock units, net of<br>shares assumed to be purchased from proceeds<br>at average market price | — *                                 | — *         | — *                               | — *         |
| Assuming conversion of 5 1/2% convertible<br>notes at the time of issuance   | — *                                 | — *         | — *                               | — *         |
| Shares applicable to stock warrants  | — **                                | — **        | — **                              | — **        |
| Adjusted weighted average number of common   | 88,233                              | 87,570      | 88,113                            | 87,522      |





## Alliance One International, Inc. and Subsidiaries

## 9. STOCK-BASED COMPENSATION (continued)

The Company's shareholders approved amendments to the 2007 Incentive Plan (the "2007 Plan") at its Annual Meeting of Shareholders on August 11, 2011 and August 6, 2009. The 2007 Plan is an omnibus plan that provides the flexibility to grant a variety of equity awards including stock options, stock appreciation rights, stock awards, stock units, performance awards and incentive awards to officers, directors and employees of the Company.

During the three months and six months ended September 30, 2014 and 2013, respectively, the Company made the following stock-based compensation awards:

| (in thousands, except grant date fair value)      | Three Months Ended    |         | Six Months Ended      |         |
|---|-----------------------|---------|-----------------------|---------|
|   | September 30,<br>2014 | 2013    | September 30,<br>2014 | 2013    |
| <b>Restricted Stock</b>                           |                       |         |                       |         |
| Number Granted                                    | —                     | 198     | —                     | 198     |
| Grant Date Fair Value                             | \$—                   | \$ 3.80 | \$—                   | \$ 3.80 |
| <b>Unrestricted Stock</b>                         |                       |         |                       |         |
| Number Granted                                    | 94                    | —       | 94                    | —       |
| Grant Date Fair Value                             | \$ 1.97               | \$—     | \$ 1.97               | \$—     |
| <b>Restricted Stock Units</b>                     |                       |         |                       |         |
| Number Granted                                    | —                     | —       | 220                   | 643     |
| Grant Date Fair Value                             | \$—                   | \$—     | \$ 2.72               | \$ 3.85 |
| <b>Cash-Settled Restricted Stock Units</b>        |                       |         |                       |         |
| Number Granted                                    | 22                    | —       | 458                   | —       |
| Grant Date Fair Value                             | \$ 2.21               | \$—     | \$ 2.70               | \$—     |
| <b>Performance Based Stock Units</b>              |                       |         |                       |         |
| Number Granted                                    | —                     | —       | 220                   | 643     |
| Grant Date Fair Value                             | \$—                   | \$—     | \$ 2.72               | \$ 3.85 |
| <b>Cash-Settled Performance Based Stock Units</b> |                       |         |                       |         |
| Number Granted                                    | 22                    | —       | 458                   | —       |
| Grant Date Fair Value                             | \$ 2.21               | \$—     | \$ 2.70               | \$—     |

Under the terms of the Performance Based Stock Units, shares ultimately issued will be contingent upon specified business performance goals. Unrestricted stock consists of shares issued to non-employee directors of the Company which are not subject to a minimum vesting period.

## 10. CONTINGENCIES AND OTHER INFORMATION

## Non-Income Tax

The government in the Brazilian State of Parana ("Parana") issued a tax assessment on October 26, 2007 with respect to local intrastate trade tax credits that result primarily from tobacco transferred between states within Brazil. The assessment for intrastate trade tax credits taken is \$5,375 and the total assessment including penalties and interest at September 30, 2014 is \$14,720. The Company believes it has properly complied with Brazilian law and will contest any assessment through the judicial process. Should the Company lose in the judicial process, the loss of the intrastate trade tax credits would have a material impact on the financial statements of the Company.

The Company also has local intrastate trade tax credits in the Brazilian State of Santa Catarina. This jurisdiction permits the sale or transfer of excess credits to third parties, however approval must be obtained from the tax authorities. The Company has an agreement with the state government regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of \$9,572 at September 30, 2014, which is net of impairment charges based on management's expectations about future realization. The intrastate trade tax credits will continue to be monitored for impairment in future periods based on market conditions and the Company's ability to use or sell the

tax credits.

Alliance One International, Inc. and Subsidiaries

## 10. CONTINGENCIES AND OTHER INFORMATION (continued)

## Non-Income Tax (continued)

In 1969, the Brazilian government created a tax credit program that allowed companies to earn IPI tax credits (“IPI credits”) based on the value of their exports. The government began to phase out this program in 1979, which resulted in numerous lawsuits between taxpayers and the Brazilian government. The Company has a long legal history with respect to credits it earned while the IPI credit program was in effect. In 2001, the Company won a claim related to certain IPI credits it earned between 1983 and 1990. The Brazilian government appealed this decision and numerous rulings and appeals were rendered on behalf of both the government and the Company from 2001 through 2013. Because of this favorable ruling, the Company began to use these earned IPI credits to offset federal taxes in 2004 and 2005, until it received a Judicial Order to suspend the IPI offsetting in 2005. The value of the federal taxes offset in 2004 and 2005 was \$24,142 and the Company established a reserve on these credits at the time of offsetting as they were not yet realizable due to the legal uncertainty that existed. Specifically, the Company extinguished other federal tax liabilities using IPI credits and recorded a liability in Pension, Postretirement and Other Long-Term Liabilities to reflect that the credits were not realizable at that time due to the prevalent legal uncertainty. On March 7, 2013, the Brazilian Supreme Court rendered a final decision in favor of the Company that recognized the validity of the IPI credits and secured the Company's right to benefit from the IPI credits earned from March 1983 to October 1990. This final decision expressly stated the Company has the right to the IPI credits. The Company estimated the total amount of the IPI credits to be approximately \$94,316 at March 31, 2013. Since the March 2013 ruling definitively (without the government's ability to appeal) granted the Company the ownership of the IPI credits generated between 1983 and 1990 the Company believed the amount of IPI credits that were used to offset other federal taxes in 2004 and 2005 were realizable beyond a reasonable doubt. Accordingly, and at March 31, 2013, the Company recorded the \$24,142 IPI credits it realized in the Statements of Consolidated Operations in Other Income. No further benefit has been recognized pending the outcome of the judicial procedure to ascertain the final amount as those amounts have not yet been realized.

## Other

Mindo, S.r.l., the purchaser in 2004 of the Company's Italian subsidiary Dimon Italia, S.r.l., asserted claims against a subsidiary of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim involved a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction. On November 11, 2013, the court issued its judgment in favor of the Company's subsidiary, rejecting the claims asserted by Mindo, S.r.l., and awarding the Company's subsidiary legal costs of €48. The period for appeal of the court's judgment is pending, and it is uncertain whether Mindo S.r.l. will pursue an appeal.

In accordance with generally accepted accounting principles, the Company records all known asset retirement obligations (“ARO”) for which the liability can be reasonably estimated. Currently, it has identified an ARO associated with one of its facilities that requires it to restore the land to its initial condition upon vacating the facility. The Company has not recognized a liability under generally accepted accounting principles for this ARO because the fair value of restoring the land at this site cannot be reasonably estimated since the settlement date is unknown at this time. The settlement date is unknown because the land restoration is not required until title is returned to the government, and the Company has no current or future plans to return the title. The Company will recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value.

## 11. DEBT ARRANGEMENTS

Notes Payable to Banks increased \$368,863 from March 31, 2014 due to the seasonal financing for the purchasing and processing of the South America and Africa crops.

On April 15, 2014, the Company's senior secured credit facility with a syndicate of banks automatically reduced to approximately \$210,300 from approximately \$303,900 per the amended and restated agreement dated August 1, 2013. At September 30, 2014, there were no borrowings under the senior secured credit facility. The Company continuously monitors its compliance with the covenants of its senior secured credit facility and its senior notes. Significant changes in market conditions or other factors could adversely affect the Company's business and future debt covenant compliance thereunder. As a result, the Company may not be able to maintain compliance with the covenants over the next twelve months. If the Company were unable to maintain compliance with the covenants in the Senior Secured Credit Facility agreement, as amended from time-to-time, the Company would seek modification to the existing agreement to further amend covenants and extend maturities. If the Company were unable to obtain modification, in a scenario where it is required, the Company could decide to pay off outstanding amounts and terminate the agreement. In such case, the liquidity provided by the agreement would not be available and the Company believes that it has sufficient liquidity from operations and other available funding sources to meet future requirements.

## Alliance One International, Inc. and Subsidiaries

## 11. DEBT ARRANGEMENTS (continued)

As amended, the senior secured credit facility restricts the Company from paying any dividends during the remaining term of the facility. In addition, the indenture governing the Company's senior notes contains similar restrictions and also prohibits the payment of dividends and other distributions if the Company fails to satisfy a ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0. At September 30, 2014, the Company did not satisfy this fixed charge coverage ratio. The Company may from time to time not satisfy this ratio.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

## Fair Value of Derivative Financial Instruments

The Company recognizes all derivative financial instruments, such as foreign exchange contracts at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. The Company has elected not to offset fair value amounts recognized for derivative instruments with the same counterparty under a master netting agreement. See Note 17 "Fair Value Measurements" to the "Notes to Condensed Consolidated Financial Statements" for further information on fair value methodology.

The following table summarizes the fair value of the Company's derivatives by type at September 30, 2014 and 2013, and March 31, 2014.

|  | Fair Values of Derivative Instruments |            |  |            |
|--|---------------------------------------|------------|--|------------|
|  | Assets                                |            | Liabilities                                    |            |
| Derivatives Not Designated as Hedging Instruments: | Balance Sheet Account                 | Fair Value | Balance Sheet Account                          | Fair Value |
| Foreign currency contracts at September 30, 2014   | Other Current Assets                  | \$—        | Accrued Expenses and Other Current Liabilities | \$—        |
| Foreign currency contracts at September 30, 2013   | Other Current Assets                  | \$810      | Accrued Expenses and Other Current Liabilities | \$77       |
| Foreign currency contracts at March 31, 2014       | Other Current Assets                  | \$—        | Accrued Expenses and Other Current Liabilities | \$169      |

## Earnings Effects of Derivatives

The Company periodically enters into forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. These contracts are for green tobacco purchases and processing costs as well as selling, general and administrative costs as the Company deems necessary. These contracts do not meet the requirements for hedge accounting treatment under generally accepted accounting principles, and as such, all changes in fair value are reported in income each period.

The following table summarizes the earnings effects of derivatives in the Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2014 and 2013.

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Gain (Loss) Recognized in Income |         |                                |            |
|---|--|----------------------------------|---------|--------------------------------|------------|
|   |  | Three Months Ended September 30, |         | Six Months Ended September 30, |            |
|   |  | 2014                             | 2013    | 2014                           | 2013       |
| Foreign currency contracts                        | Cost of goods and services sold              | \$(545                           | ) \$607 | \$1,527                        | \$(2,673 ) |

Credit Risk

Financial instruments, including derivatives, expose the Company to credit loss in the event of non-performance by counterparties. The Company manages its exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. If a counterparty fails to meet the terms of an arrangement, the Company's exposure is limited to the net amount that would have been received, if any, over the arrangement's remaining life. The Company does not anticipate non-performance by the counterparties and no material loss would be expected from non-performance by any one of such counterparties.

- 16 -

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## Alliance One International, Inc. and Subsidiaries

## 13. PENSION AND POSTRETIREMENT BENEFITS

The Company has multiple benefit plans at several locations. The Company has a defined benefit plan that provides retirement benefits for substantially all U.S. salaried personnel based on years of service rendered, age and compensation. The Company also maintains various other Excess Benefit and Supplemental Plans that provide additional benefits to (1) certain individuals whose compensation and the resulting benefits that would have actually been paid are limited by regulations imposed by the Internal Revenue Code and (2) certain individuals in key positions. The Company funds these plans in amounts consistent with the funding requirements of federal law and regulations.

Additional non-U.S. defined benefit plans sponsored by certain subsidiaries cover certain full-time employees located in Germany, Turkey, and the United Kingdom.

The Company experienced a special termination benefit and curtailment loss of \$1,261 during the quarter ended June 30, 2013 in connection with restructuring in one of its foreign locations, which has been recorded in Restructuring and Asset Impairment Charges.

## Components of Net Periodic Benefit Cost

Net periodic pension cost for continuing operations consisted of the following:

|                                    | Three Months Ended |          | Six Months Ended |          |
|------------------------------------|--------------------|----------|------------------|----------|
|                                    | September 30,      |          | September 30,    |          |
|                                    | 2014               | 2013     | 2014             | 2013     |
| Service cost                       | \$510              | \$530    | 1,020            | \$1,078  |
| Interest expense                   | 1,694              | 1,662    | 3,387            | 3,383    |
| Expected return on plan assets     | (1,677 )           | (1,519 ) | (3,354 )         | (3,037 ) |
| Amortization of prior service cost | 49                 | 49       | 97               | 102      |
| Actuarial loss                     | 557                | 760      | 1,114            | 1,517    |
| Curtailment loss                   | —                  | —        | —                | 77       |
| Special termination benefit        | —                  | —        | —                | 1,184    |
| Net periodic pension cost          | \$1,133            | \$1,482  | \$2,264          | \$4,304  |

## Employer Contributions

The Company's investment objectives are to generate consistent total investment return to pay anticipated plan benefits, while minimizing long-term costs. Financial objectives underlying this policy include maintaining plan contributions at a reasonable level relative to benefits provided and assuring that unfunded obligations do not grow to a level to adversely affect the Company's financial health. For the six months ended September 30, 2014, contributions of \$5,283 were made to pension plans for fiscal 2015. Additional contributions to pension plans of approximately \$6,380 are expected during the remainder of fiscal 2015. However, this amount is subject to change, due primarily to asset performance significantly above or below the assumed long-term rate of return on pension assets and significant changes in interest rates.

## Postretirement Health and Life Insurance Benefits

The Company also provides certain health and life insurance benefits to retired employees, and their eligible dependents, who meet specified age and service requirements. As of September 30, 2014, contributions of \$335 were made to the plans for fiscal 2015. Additional contributions of \$566 to the plans are expected during the rest of fiscal 2015. The Company retains the right, subject to existing agreements, to modify or eliminate the postretirement medical benefits.





## Alliance One International, Inc. and Subsidiaries

## 13. PENSION AND POSTRETIREMENT BENEFITS (continued)

## Postretirement Health and Life Insurance Benefits (continued)

## Components of Net Periodic Benefit Cost

Net periodic benefit cost for postretirement health and life insurance benefit plans consisted of the following:

|                                    | Three Months Ended |          | Six Months Ended |          |
|------------------------------------|--------------------|----------|------------------|----------|
|                                    | September 30,      |          | September 30,    |          |
|                                    | 2014               | 2013     | 2014             | 2013     |
| Service cost                       | \$10               | \$17     | 21               | \$33     |
| Interest expense                   | 134                | 142      | 268              | 284      |
| Amortization of prior service cost | (303 )             | (410 )   | (606 )           | (820 )   |
| Actuarial loss                     | 111                | 123      | 222              | 246      |
| Net periodic pension (benefit)     | \$(48 )            | \$(128 ) | \$(95 )          | \$(257 ) |

## 14. INVENTORIES

The following table summarizes the Company's costs in inventory:

|                     | September 30, 2014 | September 30, 2013 | March 31, 2014 |
|---------------------|--------------------|--------------------|----------------|
| Processed tobacco   | \$659,799          | \$701,329          | \$404,683      |
| Unprocessed tobacco | 277,510            | 251,472            | 309,570        |
| Other               | 39,107             | 31,972             | 46,354         |
|                     | \$976,416          | \$984,773          | \$760,607      |

## 15. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth the changes in each component of accumulated other comprehensive loss, net of tax, attributable to the Company:

|   | Currency<br>Translation<br>Adjustment | Pensions,<br>Net of Tax | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|---------------------------------------|-------------------------|---|
| Balances, March 31, 2014                              | \$(1,640)                             | \$(36,461)              | \$(38,101 )                                   |
| Other comprehensive earnings before reclassifications | 208                                   | —                       | 208   |
| Amounts reclassified to net earnings, net of tax      | —                                     | 414                     | 414   |
| Other comprehensive earnings, net of tax              | 208                                   | 414                     | 622   |
| Balances, June 30, 2014                               | (1,432)                               | \$(36,047)              | \$(37,479 )                                   |
| Other comprehensive earnings before reclassifications | (4,287)                               | —                       | (4,287 )                                      |
| Amounts reclassified to net earnings, net of tax      | —                                     | 413                     | 413   |
| Other comprehensive earnings, net of tax              | (4,287)                               | 413                     | (3,874 )                                      |
| Balances, September 30, 2014                          | \$(5,719)                             | \$(35,634)              | \$(41,353 )                                   |
| Balances, March 31, 2013                              | \$(5,724)                             | \$(49,468)              | \$(55,192 )                                   |
| Other comprehensive losses before reclassifications   | 749                                   | —                       | 749   |
| Amounts reclassified to net earnings, net of tax      | —                                     | 522                     | 522   |
| Other comprehensive losses, net of tax                | 749                                   | 522                     | 1,271   |
| Balances, June 30, 2013                               | (4,975)                               | \$(48,946)              | \$(53,921 )                                   |
| Other comprehensive earnings before reclassifications | 1,861                                 | —                       | 1,861   |

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|  |          |          |            |
|--|----------|----------|------------|
| Amounts reclassified to net earnings, net of tax | —        | 522      | 522        |
| Other comprehensive earnings, net of tax         | 1,861    | 522      | 2,383      |
| Balances, September 30, 2013                     | \$(3,114 | )(48,424 | )(51,538 ) |

- 18 -

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## Alliance One International, Inc. and Subsidiaries

## 15. OTHER COMPREHENSIVE INCOME (LOSS) (continued)

The following table sets forth amounts by component, reclassified from accumulated other comprehensive loss to earnings for the three months and six months ended September 30, 2014 and 2013:

|  | Three Months Ended |        | Six Months Ended |          |
|--|--------------------|--------|------------------|----------|
|  | September 30,      |        | September 30,    |          |
|  | 2014               | 2013   | 2014             | 2013     |
| Pension and postretirement plans (*):  |                    |        |                  |          |
| Actuarial loss   | \$ 667             | \$ 884 | \$ 1,336         | \$ 1,763 |
| Amortization of prior service cost   | (254)              | )(362) | )(509)           | )(719)   |
|  | \$ 413             | \$ 522 | \$ 827           | 1,044    |
| Amounts reclassified from accumulated other comprehensive losses to net earnings | \$ 413             | \$ 522 | \$ 827           | \$ 1,044 |

(\*) Amounts are included in net periodic benefit costs for pension and postretirement plans. See Note 13 "Pension and Postretirement Benefits" to the "Notes to Condensed Consolidated Financial Statements" for further information.

## 16. SALE OF RECEIVABLES

The Company sells trade receivables to unaffiliated financial institutions under three accounts receivable securitization programs. Under the first program, the Company continuously sells a designated pool up to \$250,000 trade receivables to a special purpose entity, which in turn sells 100% of the receivables to an unaffiliated financial institution. This program allows the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the sale and transfer of the receivables to the special purpose entity, the receivables are isolated from the Company and its affiliates, and upon the sale and transfer of the receivables from the special purpose entity to the unaffiliated financial institution effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. This program requires a minimum level of deferred purchase price to be retained by the Company in connection with the sales. The Company services, administers and collects the receivables on behalf of the special purpose entity and receives a servicing fee of .5% of serviced receivables per annum. As the Company estimates the fee it receives in return for its obligation to service these receivables at fair value, no servicing assets or liabilities are recognized. Servicing fees recognized were not material and are recorded as a reduction of Selling, General and Administrative Expenses within the Condensed Consolidated Statements of Operations.

The agreements for the second and third securitization programs also allow the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. These are uncommitted programs, whereby the Company offers receivables for sale to the respective unaffiliated financial institution, which are then subject to acceptance by the unaffiliated financial institution. Following the sale and transfer of the receivables to the unaffiliated financial institution, the receivables are isolated from the Company and its affiliates, and effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. The Company receives no servicing fee from the unaffiliated financial institution and as a result, has established a servicing liability based upon unobservable inputs, primarily discounted cash flow. This liability is recorded in Accrued Expenses and Other Current Liabilities in the Condensed Consolidated Balance Sheets. The investment limits under these agreements are \$35,000 and \$100,000, respectively.

Under the programs, all of the receivables sold for cash are removed from the Condensed Consolidated Balance Sheets and the net cash proceeds received by the Company are included as cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows. A portion of the purchase price for the receivables is paid by the unaffiliated financial institutions in cash and the balance is a deferred purchase price receivable, which is paid as

payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a continuing involvement and a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in Trade and Other Receivables, Net in the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (i.e., level three inputs), primarily discounted cash flow. As servicer of these facilities, the Company may receive funds that are due to the unaffiliated financial institutions which are net settled on the next settlement date. Trade and Other Receivables, Net in the Condensed Consolidated Balance Sheets has been reduced by \$\$4,300, \$2,435 and \$16,575 as a result of the net settlement as of September 30, 2014 and 2013 and March 31, 2014, respectively. See Note 17 "Fair Value Measurements" to the "Notes to Condensed Consolidated Financial Statements" for further information.

## Alliance One International, Inc. and Subsidiaries

## 16. SALE OF RECEIVABLES (continued)

The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the other assets received at the time of transfer is recognized as a loss on sale of the related receivables and recorded in Other Income (Expense) in the Condensed Consolidated Statements of Operations.

The following table summarizes the Company's accounts receivable securitization information as of the dates shown:

|  | September 30,<br>2014 | 2013      | March 31,<br>2014 |
|--|-----------------------|-----------|-------------------|
| Receivables outstanding in facility                  | \$169,037             | \$176,481 | \$204,364         |
| Beneficial interest                                  | \$35,252              | \$35,304  | \$35,559          |
| Servicing liability                                  | \$21                  | \$—       | \$69              |
| Cash proceeds for the six months ended September 30: |                       |           |                   |
| Cash purchase price                                  | \$207,940             | \$322,631 |                   |
| Deferred purchase price                              | 86,569                | 98,481    |                   |
| Service fees   | 275                   | 175       |                   |
| Total  | \$294,784             | \$421,287 |                   |

## 17. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. A three-level valuation hierarchy based upon observable and non-observable inputs is utilized. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical assets or liabilities in active markets.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Significant inputs to the valuation model are unobservable.

The Company's financial assets and liabilities measured at fair value include derivative instruments, securitized beneficial interests and guarantees. The application of the fair value guidance to the non-financial assets and liabilities primarily includes assessments of investments in subsidiaries, goodwill and other intangible assets and long-lived assets for potential impairment.

Following are descriptions of the valuation methodologies the Company uses to measure different assets or liabilities at fair value.

**Debt**

The fair value of debt is measured for purpose of disclosure. Debt is shown at historical value in the Condensed Consolidated Balance Sheets. When possible, to measure the fair value of its debt the Company uses quoted market prices of its own debt with approximately the same remaining maturities. When this is not possible, the fair value of debt is calculated using discounted cash flow models with interest rates based upon market based expectations, the Company's credit risk and the contractual terms of the debt instrument. The Company also has portions of its debt with maturities of one year or less for which book value is a reasonable approximation of the fair value of this debt. The fair value of debt is considered to fall within Level 2 of the fair value hierarchy as significant value drivers such

as interest rates are readily observable. The carrying value and estimated fair value of the Company's Long-Term Debt are shown in the table below.

|                      | September 30, 2014 | September 30,<br>2013 | March 31, 2014 |
|----------------------|--------------------|-----------------------|----------------|
| Carrying value       | \$ 758,751         | \$ 777,825            | \$ 904,919     |
| Estimated fair value | 742,009            | 739,344               | 919,435        |

Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

### Derivative financial instruments

The Company's derivatives consist of foreign currency contracts. The fair value of the derivatives are determined using a discounted cash flow analysis on the expected future cash flows of each derivative. This analysis utilizes observable market data including forward yield curves and implied volatilities to determine the market's expectation of the future cash flows of the variable component. The fixed and variable components of the derivative are then discounted using calculated discount factors developed based on the LIBOR swap rate and are netted to arrive at a single valuation for the period. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. As of September 30, 2014 and 2013 and March 31, 2014 the inputs used to value the Company's derivatives fall within Level 2 of the fair value hierarchy. However, credit valuation adjustments associated with its derivatives could utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. Should the use of such credit valuation adjustment estimates result in a significant impact on the overall valuation, this would require reclassification to Level 3.

### Securitized beneficial interests

The fair value of securitized beneficial interests is based upon a valuation model that calculates the present value of future expected cash flows using key assumptions for payment speeds and discount rates. The assumptions for payment speed are based on the Company's historical experience. The discount rates are based upon market trends and anticipated performance relative to the particular assets securitized which have been assumed to be commercial paper rate plus a margin or LIBOR plus a margin. Due to the use of the Company's own assumptions and the uniqueness of these transactions, securitized beneficial interests fall within Level 3 of the fair value hierarchy. Since the discount rate and the payment speed are components of the same equation, a change in either by 10% or 20% would change the value of the recorded beneficial interest at September 30, 2014 by \$108 and \$216, respectively.

### Guarantees

The Company guarantees funds issued to tobacco suppliers by third party lending institutions and also guarantees funds borrowed by a deconsolidated subsidiary. The fair value of guarantees is based upon either the premium the Company would require to issue the same inputs or historical loss rates and as such these guarantees fall into Level 3 of the fair value hierarchy.

Tobacco supplier guarantees - The Company provides guarantees to third parties for indebtedness of certain tobacco suppliers to finance their crops. The fair value of these guarantees is determined using historical loss rates on both guaranteed and non-guaranteed tobacco supplier loans. Should the loss rates change 10% or 20%, the fair value of the guarantee at September 30, 2014 would change by \$557 or \$1,102, respectively.

Deconsolidated subsidiary guarantees - The fair value of these guarantees is determined using a discounted cash flow model based on the differential between interest rates available with and without the guarantees. The fair value of these guarantees is most closely tied to the theoretical interest rate differential. Should interest rates used in the model change by 10% or 20%, the fair value of the guarantee, at September 30, 2014 would change by \$736 or \$1,457, respectively.





## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

## Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following table summarizes the items measured at fair value on a recurring basis:

|                                  | September 30, 2014 |                 |  | September 30, 2013 |                 |  | March 31, 2014 |                 | Total Assets / Liabilities at Fair Value |
|----------------------------------|--------------------|-----------------|--|--------------------|-----------------|--|----------------|-----------------|--|
|                                  | Level 2            | Level 3         | Total Assets / Liabilities at Fair Value | Level 2            | Level 3         | Total Assets / Liabilities at Fair Value | Level 2        | Level 3         |  |
| <b>Assets</b>                    |                    |                 |  |                    |                 |  |                |                 |  |
| Derivative financial instruments | \$—                | \$—             | \$—                                      | \$810              | \$—             | \$810                                    | \$—            | \$—             | \$—                                      |
| Securitized beneficial interests | —                  | 35,252          | 35,252                                   | —                  | 35,304          | 35,304                                   | —              | 35,559          | 35,559                                   |
| <b>Total Assets</b>              | <b>\$—</b>         | <b>\$35,252</b> | <b>\$35,252</b>                          | <b>\$810</b>       | <b>\$35,304</b> | <b>\$36,114</b>                          | <b>\$—</b>     | <b>\$35,559</b> | <b>\$35,559</b>                          |
| <b>Liabilities</b>               |                    |                 |  |                    |                 |  |                |                 |  |
| Guarantees                       | \$—                | \$7,272         | \$7,272                                  | \$—                | \$6,023         | \$6,023                                  | \$—            | \$7,344         | \$7,344                                  |
| Derivative financial instruments | —                  | —               | —  | 77                 | —               | 77                                       | 169            | —               | 169                                      |
| <b>Total liabilities</b>         | <b>\$—</b>         | <b>\$7,272</b>  | <b>\$7,272</b>                           | <b>\$77</b>        | <b>\$6,023</b>  | <b>\$6,100</b>                           | <b>\$169</b>   | <b>\$7,344</b>  | <b>\$7,513</b>                           |

## Reconciliation of Change in Recurring Level 3 Balances

The following tables present the changes in Level 3 instruments measured on a recurring basis.

|  | Three Months Ended<br>September 30, 2014 |            | Six Months Ended<br>September 30, 2014 |            |
|--|--|------------|--|------------|
|  | Securitized<br>Beneficial<br>Interests   | Guarantees | Securitized<br>Beneficial<br>Interests | Guarantees |
| Beginning Balance                            | \$24,883                                 | \$7,262    | \$35,559                               | \$7,344    |
| Issuances of guarantees/sales of receivables | 43,806                                   | 4,238      | 65,319                                 | 8,519      |
| Settlements                                  | (32,255)                                 | (1,917)    | (63,980)                               | (6,280)    |
| Losses recognized in earnings                | (1,182)                                  | (2,311)    | (1,646)                                | (2,311)    |
| Ending Balance September 30, 2014            | \$35,252                                 | \$7,272    | \$35,252                               | \$7,272    |

|  | Three Months Ended<br>September 30, 2013 |            | Six Months Ended<br>September 30, 2013 |            |
|--|--|------------|--|------------|
|  | Securitized<br>Beneficial<br>Interest    | Guarantees | Securitized<br>Beneficial<br>Interest  | Guarantees |
| Beginning Balance                            | \$21,349                                 | \$6,176    | \$31,992                               | \$6,367    |
| Issuances of guarantees/sales of receivables | 69,857                                   | 2,171      | 111,998                                | 6,038      |
| Settlements                                  | (54,405)                                 | (2,324)    | (107,222)                              | (6,382)    |
| Losses recognized in earnings                | (1,497)                                  | —          | (1,464)                                | —          |

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|                                   |          |         |          |         |
|-----------------------------------|----------|---------|----------|---------|
| Ending Balance September 30, 2013 | \$35,304 | \$6,023 | \$35,304 | \$6,023 |
|-----------------------------------|----------|---------|----------|---------|

The amount of unrealized losses relating to assets still held at the respective dates of September 30, 2014 and 2013 and March 31, 2014 were \$1,369, \$1,275 and \$1,572 on securitized beneficial interests.

Gains and losses included in earnings are reported in Other Income (Expense).

- 22 -

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## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

## Information About Fair Value Measurements Using Significant Unobservable Inputs

The following table summarizes significant unobservable inputs and the valuation techniques thereof at September 30, 2014:

|                                      | Fair Value at September 30, 2014 | Unobservable Input   | Range (Weighted Average)                 |
|--------------------------------------|----------------------------------|----------------------|--|
| Securitized Beneficial Interests     | \$35,252                         | Discounted Cash Flow | Discount Rate<br>2.66% to 2.74%          |
|                                      |                                  |                      | Payment Speed<br>81 to 112 days          |
| Tobacco Supplier Guarantees          | \$3,479                          | Discounted Cash Flow | Market Interest Rate<br>13.00% to 46.00% |
| Deconsolidated Subsidiary Guarantees | \$3,793                          | Discounted Cash Flow | Market Interest Rate<br>12.00%           |

## 18. RELATED PARTY TRANSACTIONS

The Company's operating subsidiaries engage in transactions with related parties in the normal course of business. The following is a summary of balances and transactions with related parties of the Company:

|                     | September 30, 2014 | September 30, 2013                          | March 31, 2014                            |
|---------------------|--------------------|---|---|
| Balances:           |                    |   |   |
| Accounts receivable | \$66,191           | \$99,053                                    | \$44,869                                  |
| Accounts payable    | 39,640             | 27,907                                      | 63,384                                    |
|                     |                    | Three Months Ended<br>September 30,<br>2014 | Six Months Ended<br>September 30,<br>2014 |
| Transactions:       |                    | 2013  | 2013                                      |
| Sales               |                    | \$15,811                                    | \$—                                       |
| Purchases           |                    | 70,028                                      | 57,766                                    |
|                     |                    |   | 88,128                                    |
|                     |                    |   | 85,709                                    |

The Company's operating subsidiaries have entered into transactions with affiliates of the Company for the purpose of procuring or processing inventory.

The Company's balances due to and from related parties are primarily with its deconsolidated Zimbabwe subsidiary. The remaining related party balances and transactions relate to the Company's equity basis investments in companies located in Asia, South America, North America and Europe which purchase and process tobacco or produce consumable e-liquids.

## 19. INVESTEE COMPANIES

The Company has equity method investments in companies in India, Thailand, Turkey and Brazil that purchase and process tobacco. The investees and ownership percentages are as follows: Alliance One Industries India Private Ltd. (India) 49%, Siam Tobacco Export Company (Thailand) 49%, Adams International Ltd. (Thailand) 49%, Oryantal Tutun Paketleme 50%, and China Brasil Tabacos Exportadora SA ("CBT") 49%. On April 2, 2014, the Company completed the purchase of a 50% interest in Purilum, LLC, a U.S. company that develops, produces, and sells

consumable e-liquids to manufacturers and distributors of e-vapor products.

On March 26, 2014, upon the disposition of 51% interest in CBT, the difference between the book basis of the Company's 49% interest and the fair value of the investment recorded created a basis difference of \$15,460. The Company evaluated the contributed assets and identified basis differences in certain accounts, including inventory, intangible assets and deferred taxes. The basis differences are being amortized over the respective estimated lives of these assets and liabilities, which range from one to ten years. The Company's earnings from the equity method investment are reduced by amortization expense related to these basis differences. At September 30, 2014, the basis difference was \$13,802.

- 23 -

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Alliance One International, Inc. and Subsidiaries

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

EXECUTIVE OVERVIEW

The following executive overview is intended to provide significant highlights of the discussion and analysis that follows.

Financial Results

For the quarter, tobacco revenues and costs decreased primarily due to adverse weather in some regions during the growing and harvesting periods, building global market supply and deconsolidation of a subsidiary. The decrease in revenues was partially offset by increased processing revenues related to the former Brazilian subsidiary that is now the new joint venture. The decrease in volumes lowered gross profit and operating income, while gross profit as a percentage of sales improved versus last year. In the same quarter last year, we concluded several debt refinancing transactions. As a result of the non-recurrence of debt retirement costs and lower interest expense, pretax income improved 122.6%.

For the year-to-date period, revenues and costs continued to be impacted by the oversupply. However, the positive impact from derivatives and currency movement combined with reductions in unrecovered tobacco supplier advances resulted in an increase in gross profit as a percentage of sales to 12.7% this year from 10.4% last year, while gross profit decreased a modest 5.2% on lower volume and revenue. As a result of lower selling, general and administrative expenses and restructuring costs, operating income remained consistent with the prior year. With the non-recurrence of debt retirement costs and lower interest expense, pretax income for the six months improved 82.5%.

Liquidity

Our liquidity requirements are affected by various factors including crop seasonality, foreign currency and interest rates, green tobacco prices, customer mix, crop size and quality. We monitor and adjust funding sources based on a number of industry, business, and financial market dynamics. In fiscal 2014, we extended our U.S. revolving credit facility maturity to April 2017. At the same time, we issued \$735.0 million of new eight year senior secured second lien notes that refinanced our \$635.0 million senior notes, effectively extending the maturity on this tranche to 2021. Additionally, we have retired our \$115.0 million senior subordinated convertible notes. The collective refinancing extended the majority of our long-term debt and reduced uncertainty related to the capital markets, while providing a solid base for the business. We will continue to monitor capital markets and utilize various short-term funding sources to enhance and drive various business opportunities that maintain flexibility and meet cost expectations. In addition, from time to time, we may elect to purchase, redeem, repay, retire or cancel indebtedness prior to stated maturity under our various foreign credit lines, senior secured credit agreement or indentures, as permitted therein.

Outlook

For this fiscal year we expect similar revenue and improved profitability compared to the prior year. We plan to continue to invest carefully where appropriate returns are achievable incorporating further improvements to sustainability and social responsibility initiatives, while continuing to focus on additional operational efficiency enhancement opportunities. Many customers value these global initiatives and are beginning to monitor how we measure our success and areas for improvement. Developed sustainability and social responsibility programs are becoming requirements to be a leaf supplier for many manufacturers. As such controlled investment in these core areas with focus on our customers' longer term requirements should improve our results and increase shareholder value.



## Alliance One International, Inc. and Subsidiaries

## RESULTS OF OPERATIONS:

## Condensed Consolidated Statement of Operations and Supplemental Information

| (in millions, except per kilo amounts)                 | Three Months Ended<br>September 30, |            |          | Six Months Ended<br>September 30, |            |            |          |            |
|--|-------------------------------------|------------|----------|-----------------------------------|------------|------------|----------|------------|
|  |                                     | Change     |          |                                   | Change     |            |          |            |
|  | 2014                                | \$         | %        | 2013                              | 2014       | \$         | %        | 2013       |
| Kilos sold   | 107.1                               | (21.5 )    | (16.7 )  | 128.6                             | 154.4      | (50.5 )    | (24.6 )  | 204.9      |
| Tobacco sales and other operating revenues:            |                                     |            |          |                                   |            |            |          |            |
| Sales and other operating revenues                     | \$553.8                             | \$(128.1 ) | (18.8 )  | \$681.9                           | \$785.9    | \$(266.7 ) | (25.3 )  | \$1,052.6  |
| Average price per kilo                                 | 5.17                                | (0.13 )    | (2.5 )   | 5.30                              | 5.09       | (0.05 )    | (1.0 )   | 5.14       |
| Processing and other revenues                          | 36.0                                | 17.2       | 91.5     | 18.8                              | 52.9       | 20.9       | 65.3     | 32.0       |
| Total sales and other operating revenues               | 589.8                               | (110.9 )   | (15.8 )  | 700.7                             | 838.8      | (245.8 )   | (22.7 )  | 1,084.6    |
| Tobacco cost of goods sold:                            |                                     |            |          |                                   |            |            |          |            |
| Tobacco costs  | 470.3                               | (111.5 )   | (19.2 )  | 581.8                             | 665.8      | (241.7 )   | (26.6 )  | 907.5      |
| Transportation, storage and other period costs         | 21.2                                | (1.5 )     | (6.6 )   | 22.7                              | 32.1       | (6.8 )     | (17.5 )  | 38.9       |
| Derivative financial instrument and exchange losses    | 0.7                                 | 0.2        | 40.0     | 0.5                               | (0.5 )     | (8.4 )     | (106.3 ) | 7.9        |
| Total tobacco cost of goods sold                       | 492.2                               | (112.8 )   | (18.6 )  | 605.0                             | 697.4      | (256.9 )   | (26.9 )  | 954.3      |
| Average cost per kilo                                  | 4.60                                | (0.10 )    | (2.1 )   | 4.70                              | 4.52       | (0.14 )    | (3.0 )   | 4.66       |
| Processing and other revenues cost of services sold    | 26.1                                | 14.4       | 123.1    | 11.7                              | 34.8       | 17.0       | 95.5     | 17.8       |
| Total cost of goods and services sold                  | 518.3                               | (98.4 )    | (16.0 )  | 616.7                             | 732.2      | (239.9 )   | (24.7 )  | 972.1      |
| Gross profit   | 71.5                                | (12.5 )    | (14.9 )  | 84.0                              | 106.6      | (5.9 )     | (5.2 )   | 112.5      |
| Selling, general and administrative expenses           | 36.0                                | 1.4        | 4.0      | 34.6                              | 67.3       | (2.8 )     | -(4.0 )  | 70.1       |
| Other income (expense)                                 | 0.3                                 | 0.8        | 160.0    | (0.5 )                            | 1.1        | 0.4        | 57.1     | 0.7        |
| Restructuring and asset impairment charges             | 0.5                                 | (0.1 )     | (16.7 )  | 0.6                               | 0.5        | (2.3 )     | (82.1 )  | 2.8        |
| Operating income                                       | 35.3                                | (13.0 )    | (26.9 )  | 48.3                              | 39.9       | (0.4 )     | (1.0 )   | 40.3       |
| Debt retirement expense                                | —                                   | (55.6 )    | (100.0 ) | 55.6                              | —          | (55.6 )    | (100.0 ) | 55.6       |
| Interest expense                                       | 28.5                                | (3.2 )     | (10.1 )  | 31.7                              | 55.4       | (5.1 )     | (8.4 )   | 60.5       |
| Interest income  | 1.6                                 | (0.3 )     | (15.8 )  | 1.9                               | 2.9        | (0.9 )     | (23.7 )  | 3.8        |
| Income tax expense                                     | 11.3                                | 1.0        | 9.7      | 10.3                              | 8.4        | (2.8 )     | (25.0 )  | 11.2       |
| Equity in net income of investee companies             | 1.0                                 | (0.4 )     | (28.6 )  | 1.4                               | 0.5        | 0.2        | 66.7     | 0.3        |
| Income (loss) attributable to noncontrolling interests | —                                   | 0.1        | 100.0    | (0.1 )                            | —          | —          | —        | —          |
| Loss attributable to Alliance One International, Inc.  | \$(1.9 )                            | \$44.1     | *95.9    | \$(46.0 )                         | *\$(20.5 ) | \$62.3     | *75.2    | \$(82.8 )* |

\* Amounts do not equal column totals due to rounding

- 25 -

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## Alliance One International, Inc. and Subsidiaries

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Summary. Total sales and other operating revenues decreased 15.8% to \$589.8 million primarily due to a 16.7% decrease in volumes. Reduced volumes were primarily from adverse weather conditions that delayed the crop in certain regions, the deconsolidation of a Brazilian subsidiary following completion of a joint venture in March 2014 as well as the impact of an oversupply of tobacco in the global market. As a result of the oversupply, prices paid to tobacco suppliers in Brazil and Africa are lower this year which has lowered our average sales prices and average tobacco costs on a per kilo basis. Also lowering average sales prices and average tobacco costs on a per kilo basis was the impact of product mix and customer mix in Asia and Europe. Processing revenue and cost of services increases are primarily related to processing for our former Brazilian subsidiary that is now deconsolidated. Primarily the result of lower volumes, gross margin decreased 14.9% to \$71.5 million. As a result of the customer mix in Brazil, our gross margin as a percentage of sales improved slightly compared with the prior year. Selling, general and administrative expense ("SG&A") increased primarily from reserves for customer receivables that were partially offset by lower compensation costs, professional fees and amortization related to internally developed software. Asset impairment charges in the current year are related to machinery and equipment at our previous U.S. cut rag facility following the construction of a new facility this year. The prior year included restructuring and asset impairment charges attributable to additional employee termination costs primarily in South America. Due to the changes in our results for the quarter, operating income decreased 26.9% to \$35.3 million when compared with the prior year.

In the prior year, we refinanced our 10% senior notes and purchased \$60.0 million of our convertible notes. As a result, one-time debt retirement costs of \$55.5 million were recorded including \$21.1 million of accelerated amortization of debt issuance costs and recognition of original issue discount related to the 10% senior notes. Our interest costs decreased from the prior year primarily due to lower average borrowings partially offset by higher average rates. Our effective tax rate was 135.2% this year compared to (27.7)% last year. The variance in the effective tax rate between this year and last year is mainly related to net exchange losses on income tax accounts, lower foreign income tax rates and certain losses for which no tax benefit has been recorded.

## South America Region

## South America Region Supplemental Information

|   | Three Months Ended |               |          |           |
|---|--------------------|---------------|----------|-----------|
|   |                    | September 30, |          |           |
|   | 2014               | \$            | %        | 2013      |
| Kilos sold  | 36.3               | (22.6         | ) (38.4  | ) 58.9    |
| Tobacco sales and other operating revenues:         |                    |               |          |           |
| Sales and other operating revenues                  | \$217.9            | \$(126.0      | ) (36.6  | ) \$343.9 |
| Average price per kilo                              | 6.00               | 0.16          | 2.7      | 5.84      |
| Processing and other revenues                       | 20.1               | 17.4          | 644.4    | 2.7       |
| Total sales and other operating revenues            | 238.0              | (108.6        | ) (31.3  | ) 346.6   |
| Tobacco cost of goods sold:                         |                    |               |          |           |
| Tobacco costs                                       | \$189.3            | \$(108.5      | ) (36.4  | ) 297.8   |
| Transportation, storage and other period costs      | 6.4                | (0.4          | ) (5.9   | ) 6.8     |
| Derivative financial instrument and exchange losses | 2.4                | 2.3           | 2,300.0  | 0.1       |
| Total tobacco cost of goods sold                    | 198.1              | (106.6        | ) (35.0  | ) 304.7   |
| Average cost per kilo                               | 5.46               | 0.29          | 5.6      | 5.17      |
| Processing and other revenues cost of services sold | 16.6               | 15.7          | 1,744.4  | 0.9       |
| Total cost of goods and services sold               | 214.7              | (90.9         | ) (29.7  | ) 305.6   |
| Gross profit  | 23.3               | (17.7         | ) (43.2  | ) 41.0    |
| Selling, general and administrative expenses        | 12.3               | (6.4          | ) (34.2  | ) 18.7    |
| Other income  | 1.6                | 0.8           | 100.0    | 0.8       |
| Restructuring and asset impairment charges          | —                  | (0.4          | ) (100.0 | ) 0.4     |

|                  |        |         |         |          |
|------------------|--------|---------|---------|----------|
| Operating income | \$12.6 | \$(10.1 | ) (44.5 | ) \$22.7 |
|------------------|--------|---------|---------|----------|

Total sales and other operating revenues decreased 31.3% to \$238.0 million primarily due to a 38.4% decrease in volumes as a result of adverse weather conditions, the deconsolidation of a Brazilian subsidiary following completion of a joint venture in March 2014 as well as the impact of an oversupply of tobacco in the global market. Primarily due to product mix, average sales prices and average tobacco costs on a per kilo basis increased partially offset by lower prices paid to tobacco suppliers which lowered our average sales prices and average tobacco costs on a per kilo basis. Also increasing costs per kilo this year was the impact of currency movements compared to the prior year. Processing and other revenues increased 644.4% this year as a result of processing for the former Brazilian subsidiary that is now deconsolidated and the weather-delayed delivery of the current crop. As a result of lower volumes this year, gross margin decreased 43.2% to \$23.3 million compared to last year. As a result of the customer mix, gross margin as a percentage of sales decreased from 11.8% last year to 9.8% this year. Reductions in SG&A were

- 26 -

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## Alliance One International, Inc. and Subsidiaries

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013 (continued)

## South America Region (continued)

attributable to allocations for general corporate services. Operating income declined 44.5% from the prior year as a result of the impact of the change in results for the region.

## Value Added Services

## Value Added Services Supplemental Information

|   | Three Months Ended |                         |        | 2013    |
|---|--------------------|-------------------------|--------|---------|
|   | 2014               | September 30,<br>Change |        |         |
|   |                    | \$                      | %      |         |
| Kilos sold  | 6.5                | 1.4                     | 27.5   | 5.1     |
| Tobacco sales and other operating revenues:         |                    |                         |        |         |
| Sales and other operating revenues                  | \$ 33.3            | \$ 6.1                  | 22.4   | \$ 27.2 |
| Average price per kilo                              | 5.12               | (0.21)                  | (3.9)  | 5.33    |
| Processing and other revenues                       | 2.5                | (0.2)                   | (7.4)  | 2.7     |
| Total sales and other operating revenues            | 35.8               | 5.9                     | 19.7   | 29.9    |
| Tobacco cost of goods sold:                         |                    |                         |        |         |
| Tobacco costs                                       | \$ 26.7            | \$ 5.1                  | 23.6   | 21.6    |
| Transportation, storage and other period costs      | 1.7                | 0.5                     | 41.7   | 1.2     |
| Derivative financial instrument and exchange losses | —                  | —                       | —      | —       |
| Total tobacco cost of goods sold                    | 28.4               | 5.6                     | 24.6   | 22.8    |
| Average cost per kilo                               | 4.37               | (0.10)                  | (2.2)  | 4.47    |
| Processing and other revenues cost of services sold | 1.9                | (0.1)                   | (5.0)  | 2.0     |
| Total cost of goods and services sold               | 30.3               | 5.5                     | 22.2   | 24.8    |
| Gross profit  | 5.5                | 0.4                     | 7.8    | 5.1     |
| Selling, general and administrative expenses        | 4.1                | 2.0                     | 95.2   | 2.1     |
| Other income  | —                  | —                       | —      | —       |
| Restructuring and asset impairment charges          | 0.5                | 0.5                     | 100.0  | —       |
| Operating income                                    | \$ 0.9             | \$(2.1)                 | (70.0) | \$ 3.0  |

Total sales and other operating revenues increased 19.7% to \$35.8 million primarily due to a 27.5% improvement in volumes resulting from increased demand for our specialty blend products that were partially offset by a 3.9% decrease in average selling prices due to product mix. Increased tobacco costs of sales primarily from the increased volumes sold were partially offset by lower conversion costs per kilo attributable to increased throughput as well as product mix. As a result, gross margin improved marginally to \$5.5 million. The change in product mix resulted in gross margin as a percentage of sales decreasing from 17.1% to 15.4%. SG&A increases were due to reserves for customer receivables during the current year. We have constructed a new U.S. cut rag facility with state of the art machinery and equipment. As a result, an asset impairment charge of \$.5 million was taken during the current year related to machinery and equipment at the previous facility. Primarily a result of the reserves for customer receivables and the asset impairment charge, operating income decreased \$2.1 million to \$.9 million compared to same quarter last year.



## Alliance One International, Inc. and Subsidiaries

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013 (continued)

## Other Regions

## Other Regions Supplemental Information

|   | Three Months Ended |                         |          | 2013      |
|---|--------------------|-------------------------|----------|-----------|
|   | 2014               | September 30,<br>Change |          |           |
|   |                    | \$                      | %        |           |
| Kilos sold  | 64.3               | (0.3                    | ) (0.5   | ) 64.6    |
| Tobacco sales and other operating revenues:         |                    |                         |          |           |
| Sales and other operating revenues                  | \$302.6            | \$(8.2                  | ) (2.6   | ) \$310.8 |
| Average price per kilo                              | 4.71               | (0.10                   | ) (2.1   | ) 4.81    |
| Processing and other revenues                       | 13.4               | —                       | —        | 13.4      |
| Total sales and other operating revenues            | 316.0              | (8.2                    | ) (2.5   | ) 324.2   |
| Tobacco cost of goods sold:                         |                    |                         |          |           |
| Tobacco costs                                       | \$254.3            | \$(8.1                  | ) (3.1   | ) 262.4   |
| Transportation, storage and other period costs      | 13.1               | (1.6                    | ) (10.9  | ) 14.7    |
| Derivative financial instrument and exchange losses | (1.7               | ) (2.1                  | ) (525.0 | ) 0.4     |
| Total tobacco cost of goods sold                    | 265.7              | (11.8                   | ) (4.3   | ) 277.5   |
| Average cost per kilo                               | 4.13               | (0.17                   | ) (4.0   | ) 4.30    |
| Processing and other revenues cost of services sold | 7.6                | (1.2                    | ) (13.6  | ) 8.8     |
| Total cost of goods and services sold               | 273.3              | (13.0                   | ) (4.5   | ) 286.3   |
| Gross profit  | 42.7               | 4.8                     | 12.7     | 37.9      |
| Selling, general and administrative expenses        | 19.6               | 5.8                     | 42.0     | 13.8      |
| Other income (expense)                              | (1.3               | ) —                     | —        | (1.3      |
| Restructuring and asset impairment charges          | —                  | (0.2                    | ) (100.0 | ) 0.2     |
| Operating income                                    | \$21.8             | \$(0.8                  | ) (3.5   | ) \$22.6  |

Total sales and other operating revenues decreased 2.5% to \$316.0 million primarily due to lower average sales prices from the product mix in Europe and customer mix in Asia that were partially offset by higher average sales prices in Africa from product mix. Volumes decreased slightly as volume decreases in Asia due to the delay of shipments into future quarters this year were substantially offset by volume increases in Africa due to earlier shipments this year compared to last year. Total tobacco costs decreased primarily due to the lower prices paid to African tobacco suppliers in the current year in response to the global oversupply market, product mix in Europe and customer mix in Asia. The decrease in tobacco costs more than offset the decrease in revenues. As a result, gross margin increased 12.7% to \$42.7 million and gross margin as a percentage of sales increased from 11.7% to 13.5%. Increases in SG&A are associated with allocations for general corporate services as reductions in professional fees were offset by increased reserves for customer receivables. As a result of the changes in results for the region, operating income decreased 3.5% to \$21.8 million this year.



## Alliance One International, Inc. and Subsidiaries

Six Months Ended September 30, 2014 Compared to Six Months Ended September 30, 2013

Summary. Total sales and other operating revenues decreased 22.7% to \$838.8 million primarily due to a 24.6% decrease in volumes. Processing revenues and cost of services increases were primarily due to processing for our former Brazilian subsidiary that is now deconsolidated following the completion of a joint venture in March 2014 and the delay in the delivery of the current crop in Brazil. Reduced volumes were primarily from Brazil due to the deconsolidation of the former Brazilian subsidiary as well as the impact of an oversupply of tobacco in the global market, Asian opportunistic sales in the prior year and the timing of shipments in Asia. As a result of the oversupply, prices paid to tobacco suppliers in Brazil and Africa are lower this year which has lowered our average sales prices and average tobacco costs on a per kilo basis. Average tobacco costs per kilo were further decreased due to lower period costs primarily from the non-recurrence of prior year losses in Zambia related to reduced recoveries from tobacco suppliers and the impact of derivative and exchange losses in the prior year compared to gains in the current year. The decreases in tobacco costs substantially offset the decreases in tobacco revenues and gross margin only decreased 5.2% to \$106.6 million. Although volumes decreased this year, the impact of higher green costs not fully recovered from customers, the non-recurrence of Zambia losses and improvements in currency movements, our gross margin as a percentage of sales improved from 10.4% to 12.7%. Selling, general and administrative expense ("SG&A") improvement was primarily from lower incentive compensation, professional fees and amortization related to internally developed software partially offset by increased reserves for customer receivables. Asset impairment charges in the current year are related to machinery and equipment at our previous U.S. cut rag facility following the construction of a new facility this year. The prior year included restructuring and asset impairment charges primarily attributable to our agreement for a joint processing venture in Turkey. Due to the changes in our results for the quarter, operating income remained consistent when compared with the prior year.

In the prior year, we refinanced our 10% senior notes and purchased \$60.0 million of our convertible notes. As a result, one-time debt retirement costs of \$55.5 million were recorded including \$21.1 million of accelerated amortization of debt issuance costs and recognition of original issue discount related to the 10% senior notes. Our interest costs decreased from the prior year related primarily due to lower average borrowings partially offset by higher average rates. Our effective tax rate was (66.9)% this year compared to (2.5)% last year. The variance in the effective tax rate between this year and last year is mainly related to net exchange losses on income tax accounts, lower foreign income tax rates and certain losses for which no tax benefit has been recorded.

## South America Region

## South America Region Supplemental Information

|   | Six Months Ended |                         |          |            |
|---|------------------|-------------------------|----------|------------|
|   | 2014             | September 30,<br>Change |          | 2013       |
|   |                  | \$                      | %        |            |
| Kilos sold  | 47.3             | (43.6                   | ) (48.0  | ) 90.9     |
| Tobacco sales and other operating revenues:         |                  |                         |          |            |
| Sales and other operating revenues                  | \$ 270.0         | \$ (253.0               | ) (48.4  | ) \$ 523.0 |
| Average price per kilo                              | 5.71             | (0.04                   | ) (0.7   | ) 5.75     |
| Processing and other revenues                       | 30.2             | 19.3                    | 177.1    | 10.9       |
| Total sales and other operating revenues            | 300.2            | (233.7                  | ) (43.8  | ) 533.9    |
| Tobacco cost of goods sold:                         |                  |                         |          |            |
| Tobacco costs                                       | \$ 229.4         | \$ (225.0               | ) (49.5  | ) 454.4    |
| Transportation, storage and other period costs      | 10.6             | (1.4                    | ) (11.7  | ) 12.0     |
| Derivative financial instrument and exchange losses | —                | (5.1                    | ) (100.0 | ) 5.1      |
| Total tobacco cost of goods sold                    | 240.0            | (231.5                  | ) (49.1  | ) 471.5    |
| Average cost per kilo                               | 5.07             | (0.12                   | ) (2.3   | ) 5.19     |
| Processing and other revenues cost of services sold | 21.2             | 17.1                    | 417.1    | 4.1        |
| Total cost of goods and services sold               | 261.2            | (214.4                  | ) (45.1  | ) 475.6    |

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|  |         |         |          |          |
|--|---------|---------|----------|----------|
| Gross profit                                 | 39.0    | (19.3   | ) (33.1  | ) 58.3   |
| Selling, general and administrative expenses | 22.4    | (8.0    | ) (26.3  | ) 30.4   |
| Other income                                 | 2.7     | 0.6     | 28.6     | 2.1      |
| Restructuring and asset impairment charges   | —       | (0.4    | ) (100.0 | ) 0.4    |
| Operating income                             | \$ 19.3 | \$(10.3 | ) (34.8  | ) \$29.6 |

- 29 -

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## Alliance One International, Inc. and Subsidiaries

Six Months Ended September 30, 2014 Compared to Six Months Ended September 30, 2013 (continued)

## South America Region (continued)

Total sales and other operating revenues decreased 43.8% to \$300.2 million due to a 48.0% decrease in volumes primarily due to the impact of an oversupply of tobacco in the global market and the deconsolidation of a Brazilian subsidiary following completion of a joint venture in March 2014. Average sales prices decreased slightly from the prior year primarily due to product mix. As a result of the oversupply, prices paid to tobacco suppliers are lower this year which has lowered average tobacco costs on a per kilo basis. The impact of derivative gains in the current year from currency movements compared to losses in the prior year also contributed to the decrease in costs per kilo over the prior year. Processing and other revenues increased 177.1% this year as a result of processing for the former Brazilian subsidiary that is now deconsolidated and the delay in delivery of the current crop. As a result of lower volumes this year, gross margin decreased 33.1% to \$39.0 million compared to last year. However, due to not fully passing on the higher cost of the prior crop to customers last year and the impact of lower average tobacco cost per kilo this year, gross margin as a percentage of sales improved from 10.9% last year to 13.0% this year. Reductions in SG&A were attributable to allocations for general corporate services. Operating income declined 34.8% from the prior year as a result of the impact of the change in results for the region.

## Value Added Services.

## Value Added Services Supplemental Information

|   | Six Months Ended |               |         |         |
|---|------------------|---------------|---------|---------|
|   |                  | September 30, |         |         |
|   | 2014             | \$            | %       | 2013    |
|   |                  | Change        |         |         |
| Kilos sold  | 12.3             | 1.7           | 16.0    | 10.6    |
| Tobacco sales and other operating revenues:         |                  |               |         |         |
| Sales and other operating revenues                  | \$62.3           | \$6.5         | 11.6    | \$55.8  |
| Average price per kilo                              | 5.07             | (0.19         | ) (3.6  | ) 5.26  |
| Processing and other revenues                       | 4.9              | (0.2          | ) (3.9  | ) 5.1   |
| Total sales and other operating revenues            | 67.2             | 6.3           | 10.3    | 60.9    |
| Tobacco cost of goods sold:                         |                  |               |         |         |
| Tobacco costs                                       | \$49.5           | \$5.1         | 11.5    | 44.4    |
| Transportation, storage and other period costs      | 2.8              | 0.4           | 16.7    | 2.4     |
| Derivative financial instrument and exchange losses | —                | —             | —       | —       |
| Total tobacco cost of goods sold                    | 52.3             | 5.5           | 11.8    | 46.8    |
| Average cost per kilo                               | 4.25             | (0.17         | ) (3.8  | ) 4.42  |
| Processing and other revenues cost of services sold | 3.6              | (0.1          | ) (2.7  | ) 3.7   |
| Total cost of goods and services sold               | 55.9             | 5.4           | 10.7    | 50.5    |
| Gross profit  | 11.3             | 0.9           | 8.7     | 10.4    |
| Selling, general and administrative expenses        | 7.0              | 2.1           | 42.9    | 4.9     |
| Other income  | —                | —             | —       | —       |
| Restructuring and asset impairment charges          | 0.5              | 0.5           | 100.0   | —       |
| Operating income                                    | \$3.8            | \$(1.7        | ) (30.9 | ) \$5.5 |

Total sales and other operating revenues increased 10.3% to \$67.2 million primarily due to a 16.0% increase in volumes primarily from increased demand for specialty blend products that were partially offset by a 3.6% decrease in average selling prices due to product mix. Increased tobacco costs of sales primarily from the increased volumes sold were partially offset by lower costs per kilo attributable to increased throughput, which lowered conversion costs, as well as product mix. As a result, gross margin improved 8.7% to \$11.3 million, while gross margin as a percentage of sales decreased slightly from 17.1% to 16.8%. SG&A increases were due to reserves for customer receivables during

the current year. With the construction of a new U.S. cut rag facility with state of the art machinery and equipment, an asset impairment charge of \$.5 million was taken during the current year related to machinery and equipment at the previous facility. Primarily a result of the reserves for customer receivables and the asset impairment charge, operating income decreased \$1.7 million to \$3.8 million compared to last year.

- 30 -

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## Alliance One International, Inc. and Subsidiaries

Six Months Ended September 30, 2014 Compared to Six Months Ended September 30, 2013 (continued)

Other Regions.

## Other Regions Supplemental Information

|   | Six Months Ended |                         |          | 2013      |
|---|------------------|-------------------------|----------|-----------|
|   | 2014             | September 30,<br>Change |          |           |
|   |                  | \$                      | %        |           |
| Kilos sold  | 94.8             | (8.6                    | ) (8.3   | ) 103.4   |
| Tobacco sales and other operating revenues:         |                  |                         |          |           |
| Sales and other operating revenues                  | \$453.6          | \$(20.2                 | ) (4.3   | ) \$473.8 |
| Average price per kilo                              | 4.78             | 0.20                    | 4.4      | 4.58      |
| Processing and other revenues                       | 17.8             | 1.8                     | 11.3     | 16.0      |
| Total sales and other operating revenues            | 471.4            | (18.4                   | ) (3.8   | ) 489.8   |
| Tobacco cost of goods sold:                         |                  |                         |          |           |
| Tobacco costs                                       | \$386.9          | \$(21.8                 | ) (5.3   | ) 408.7   |
| Transportation, storage and other period costs      | 18.7             | (5.8                    | ) (23.7  | ) 24.5    |
| Derivative financial instrument and exchange losses | (0.5             | ) (3.3                  | ) (117.9 | ) 2.8     |
| Total tobacco cost of goods sold                    | 405.1            | (30.9                   | ) (7.1   | ) 436.0   |
| Average cost per kilo                               | 4.27             | 0.05                    | 1.2      | 4.22      |
| Processing and other revenues cost of services sold | 10.0             | —                       | —        | 10.0      |
| Total cost of goods and services sold               | 415.1            | (30.9                   | ) (6.9   | ) 446.0   |
| Gross profit  | 56.3             | 12.5                    | 28.5     | 43.8      |
| Selling, general and administrative expenses        | 37.9             | 3.1                     | 8.9      | 34.8      |
| Other income (expense)                              | (1.6             | ) (0.2                  | ) 14.3   | (1.4      |
| Restructuring and asset impairment charges          | —                | (2.4                    | ) (100.0 | ) 2.4     |
| Operating income                                    | \$16.8           | \$11.6                  | 223.1    | \$5.2     |

Total sales and other operating revenues decreased 3.8% to \$471.4 million due to decreased tobacco sales revenue. Processing revenues and cost of services increases were due to increased customer volumes in the United States. Lower tobacco revenues and costs are primarily the result of lower volumes due to Asian opportunistic sales in the prior year that did not occur this year, as well as the timing of shipments in Asia. Currency movements in Europe and Africa also lowered tobacco costs. Although prices paid to African tobacco suppliers in the current year are lower in response to the global oversupply market, average sales price and tobacco cost per kilo increased primarily attributable to product mix and customer mix in Asia and Africa. The decrease in tobacco costs more than offset the decrease in revenues. As a result, gross margin increased 28.5% to \$56.3 million and gross margin as a percentage of sales increased from 8.9% to 11.9%. Also contributing to the improvement in gross margin as a percentage of sales is the non-recurrence of the prior year charge for lower recoveries from Zambian tobacco suppliers of approximately \$11.0 million. Increases in SG&A are associated with allocations for general corporate services and increased reserves for customer receivables which were partially offset by lower incentive compensation, professional fees and amortization related to internally developed software. The prior year included restructuring and asset impairment charges related to a joint processing venture in Turkey and equipment charges in Africa. As a result of the changes in results for the region, operating income increased 223.1% from \$5.2 million last year to \$16.8 million this year.



## Alliance One International, Inc. and Subsidiaries

## LIQUIDITY AND CAPITAL RESOURCES:

## Overview

Our business is seasonal, and purchasing, processing and selling activities have several associated peaks where cash on hand and outstanding indebtedness may be significantly greater or less than at fiscal year-end. We utilize capital in excess of cash flow from operations to finance accounts receivable, inventory and advances to tobacco suppliers in foreign countries, including Argentina, Brazil, Guatemala, Malawi, Tanzania, Turkey and Zambia.

As of September 30, 2014, we reached a seasonally adjusted high for our South American crop lines as we are shipping inventory and collecting receivables. In Africa, purchasing is almost complete and processing and shipping will peak in the third quarter. In Asia, the Thai crop has been processed, packed and is shipping, while Indian Mysore is being purchased, with processing and shipping scheduled to occur during the third quarter. Indonesian purchasing also began in August, and we are processing and beginning to ship. Europe has almost completed processing, and shipping will follow during the third and fourth quarters. North America has commenced flue cured purchasing and processing, with shipping scheduled to occur in full effect during the third quarter, seasonally elevating working capital requirements. Depreciation of the U.S. dollar versus many of the currencies in which we have costs may continue to have an impact on our working capital requirements, as such, we will monitor and hedge foreign currency costs prudently, and as needed on a currency-by-currency basis.

## Working Capital

Our working capital decreased from \$819.4 million at March 31, 2014 to \$666.0 million at September 30, 2014. Our current ratio was 1.8 to 1 at September 30, 2014 compared to 2.6 to 1 at March 31, 2014. The decrease in working capital is primarily related to increased notes payable to banks for the seasonal buildup of purchasing and processing tobacco in Africa and Brazil and the seasonal increase in financing of those crops. Partially offsetting the decrease in working capital is the seasonal buildup of inventories and advances to tobacco suppliers related to the timing of the Africa and North America crop cycles.

The following table is a summary of items from the Condensed Consolidated Balance Sheets and Condensed Statements of Consolidated Cash Flows. Approximately \$80.6 million of our outstanding cash balance at September 30, 2014 was held in foreign jurisdictions. As a result of our cash needs abroad, it is our intention to permanently reinvest these funds in foreign jurisdictions regardless of the fact that, due to the valuation allowance on foreign tax credit carryovers, the cost of repatriation would not have a material financial impact.

|   | As of         |           |          |
|---|---------------|-----------|----------|
|   | September 30, | March 31, |          |
| (in millions except for current ratio)                                | 2014          | 2013      | 2014     |
| Cash and cash equivalents   | \$109.6       | \$85.4    | \$234.7  |
| Trade and other receivables, net                                      | 233.8         | 319.5     | 176.5    |
| Inventories and advances to tobacco suppliers                         | 1,043.8       | 1,102.4   | 810.2    |
| Total current assets  | 1,509.5       | 1,684.8   | 1,320.8  |
| Notes payable to banks  | 581.5         | 668.9     | 212.7    |
| Accounts payable  | 55.4          | 49.3      | 115.2    |
| Advances from customers   | 58.6          | 113.5     | 22.1     |
| Total current liabilities   | 843.5         | 1,022.6   | 501.4    |
| Current ratio   | 1.8 to 1      | 1.6 to 1  | 2.6 to 1 |
| Working capital   | 666.0         | 662.2     | 819.4    |
| Long-term debt  | 755.7         | 721.7     | 900.4    |
| Stockholders' equity attributable to Alliance One International, Inc. | 251.3         | 260.3     | 273.6    |
| Net cash provided (used) by:  |               |           |          |
| Operating activities  | (334.4        | )(169.8   | ) 262.4  |

|                      |       |   |       |   |        |   |
|----------------------|-------|---|-------|---|--------|---|
| Investing activities | (14.7 | ) | (11.5 | ) | (20.4  | ) |
| Financing activities | 226.4 |   | 175.9 |   | (100.5 | ) |

Alliance One International, Inc. and Subsidiaries

LIQUIDITY AND CAPITAL RESOURCES: (continued)

Operating Cash Flows

Net cash used by operating activities increased \$164.6 million in 2014 compared to 2013. The increase in cash used was primarily due to more cash used for inventories and advances to tobacco suppliers in response to an oversupply market and less cash from customer advances related to changes in customer requirements partially offset by a decrease in receivables in accordance with payment terms and timing of shipments.

Investing Cash Flows

Net cash used by investing activities increased \$3.2 million in 2014 compared to 2013. The increase in cash used was primarily due to increased purchases of property, plant and equipment due to timing of investment in capital assets and investment in a U.S. e-liquid joint venture.

Financing Cash Flows

Net cash provided by financing activities increased \$50.5 million in 2014 compared to 2013. This increase is primarily due to debt issuance, debt retirement and other debt related costs related to our debt refinancing in the prior year that did not recur in the current year. The net proceeds from short-term borrowings for the seasonal financing of the purchase and processing of the South America and Africa crops was offset by the increase in net repayment of long-term borrowings. The current year net repayment of long-term borrowings is primarily related to repayment of our revolver borrowings. The net repayment of long-term borrowings in the prior year is primarily related to the completion of certain debt refinancing transactions.

Debt Financing

We continue to finance our business with a combination of short-term and long-term seasonal credit lines, our revolving credit facility, long-term debt securities, customer advances and cash from operations. At September 30, 2014, we had cash of \$109.6 million and total debt outstanding of \$1,340.3 million comprised of \$611.5 million of short-term and long-term notes payable to banks, \$7.0 million of other long-term debt and \$721.8 million of 9.875% senior secured second lien notes. The \$368.9 million seasonal increase in notes payable to banks from March 31, 2014 to September 30, 2014 results from anticipated seasonal fluctuation to account for borrowings under the South America and Africa credit lines. Aggregated peak borrowings by facility occurring at anytime during the three months ended September 30, 2014 and 2013, respectively, were \$653.7 million at a weighted average interest rate of 4.7% and \$736.7 million at a weighted average interest rate of 4.4%. Aggregated peak borrowings by facility occurring at anytime during the six months ended September 30, 2014 and 2013 were repaid with cash provided by operating activities. Available credit as of September 30, 2014 was \$613.9 million comprised of \$210.3 million under our revolver, \$391.0 million of notes payable to banks, \$1.6 million of other long-term debt and \$11.0 million of availability exclusively for letters of credit. In fiscal 2015, we expect to incur capital expenditures of approximately \$27.0 million for routine replacement of equipment as well as investment in assets that will add value to the customer or increase efficiency. No cash dividends were paid to stockholders during the quarter ended September 30, 2014 and payment of dividends is restricted under the terms of our revolving credit facility and the indenture governing our senior notes. We believe that these sources of liquidity versus our requirements will be sufficient to fund our anticipated needs for the next twelve months.





## Alliance One International, Inc. and Subsidiaries

## LIQUIDITY AND CAPITAL RESOURCES: (continued)

## Debt Financing (continued)

All debt agreements contain certain cross-default or cross-acceleration provisions. The following table summarizes our debt financing as of September 30, 2014:

|   | Outstanding<br>March 31,<br>2014 | September 30,<br>2014 | September 30, 2014<br>Lines and<br>Letters<br>Available | Interest<br>Rate |                  |
|---|----------------------------------|-----------------------|---|------------------|------------------|
| Senior secured credit facility:                     |                                  |                       |   |                  |                  |
| Revolver <sup>(1)</sup>                             | \$175.0                          | \$—                   | \$210.3   | 5.3              | %                |
| Senior notes:                                       |                                  |                       |   |                  |                  |
| 9.875% senior notes due 2021                        | 721.1                            | 721.8                 | —   | 9.9              | %                |
| 5 ½% convertible senior subordinated notes due 2014 | 1.1                              | —                     | —   | 5.5              | %                |
| Long-term foreign seasonal borrowings               | —                                | 30.0                  | —   | 2.7              | %                |
| Other long-term debt                                | 7.7                              | 7.0                   | 1.6   | 7.6              | % <sup>(2)</sup> |
| Notes payable to banks <sup>(3)</sup>               | 212.7                            | 581.5                 | 391.0   | 4.5              | % <sup>(2)</sup> |
| Total debt  | \$1,117.6                        | \$1,340.3             | \$602.9   |                  |                  |
| Short term  | \$212.7                          | \$581.5               |   |                  |                  |
| Long term:  |                                  |                       |   |                  |                  |
| Long term debt current                              | \$4.5                            | \$3.0                 |   |                  |                  |
| Long term debt                                      | 900.4                            | 755.8                 |   |                  |                  |
|   | \$904.9                          | \$758.8               |   |                  |                  |
| Letters of credit                                   | \$5.3                            | \$9.4                 | \$11.0  |                  |                  |
| Total credit available                              |                                  |                       | \$613.9   |                  |                  |

(1) As of September 30, 2014 pursuant to Section 2.1 (A) (iv) of the Credit Agreement, the full Revolving Committed Amount was available based on the calculation of the lesser of the Revolving Committed Amount and the Working Capital Amount.

(2) Weighted average rate for the six months ended September 30, 2014.

(3) Primarily foreign seasonal lines of credit

## Foreign Seasonal Lines of Credit

We have typically financed our non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of September 30, 2014, we had approximately \$581.5 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$992.9 million subject to limitations as provided for in the agreement governing our revolving credit facility. Additionally against these lines there was \$11.0 million available in unused letter of credit capacity with \$9.4 million issued but unfunded.

The Company also has foreign seasonal borrowings with a maturity greater than one year. As of September 30, 2014, approximately \$30.0 million was drawn and outstanding with a maximum capacity totaling \$30.0 million.



Alliance One International, Inc. and Subsidiaries

LIQUIDITY AND CAPITAL RESOURCES: (continued)

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that outlines a single comprehensive model to use in accounting for revenue from contracts with customers. The primary objective of this accounting guidance is to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This accounting guidance is effective for the Company on April 1, 2017. The Company is currently evaluating the impact of this new guidance and it may have a material impact on its financial condition or results of operations.

In August 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on determining when and how to disclose going concern uncertainties in the financial statements. The primary objective of this accounting guidance is for management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This accounting guidance is effective for the Company on March 31, 2017. The Company is currently evaluating the impact of this new guidance and does not expect it to have a material impact on its financial condition or results of operations.

FACTORS THAT MAY AFFECT FUTURE RESULTS:

Readers are cautioned that the statements contained in this report regarding expectations of our performance or other matters that may affect our business, results of operations or financial condition are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements, which are based on current expectations of future events, may be identified by use of words such as "strategy," "expects," "continues," "plans," "anticipates," "believes," "will," "estimates," "intends," "projects," "goals," "targets" and other words of similar meaning. The statements also may be identified by the fact that they do not relate strictly to historical or current facts. If underlying assumptions prove inaccurate or if known or unknown risks or uncertainties materialize, actual results could vary materially from those anticipated, estimated or projected. Some of these risks and uncertainties include changes in the timing of anticipated shipments, changes in anticipated geographic product sourcing, political instability in sourcing locations, currency and interest rate fluctuations, shifts in the global supply and demand position for our tobacco products, and the impact of regulation and litigation on our customers. A further list and description of these risks, uncertainties and other factors can be found in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 and in our other filings with the Securities and Exchange Commission. We do not undertake to update any forward-looking statements that we may make from time to time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk since March 31, 2014. For a discussion on our exposure to market risk, refer to Part II, Item 7A "Quantitative and Qualitative Disclosures About Market Risk" contained in our Annual Report on Form 10-K for the year ended March 31, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief

Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. It should be noted that, because of inherent limitations, our disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the disclosure controls and procedures are met.

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as required by Rule 13a-15(b) of the Exchange Act), as of September 30, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective to provide reasonable assurance as of September 30, 2014.

#### Changes in Internal Control Over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

- 35 -

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Alliance One International, Inc. and Subsidiaries

Item 4. Controls and Procedures (continued)

Changes in Internal Control Over Financial Reporting (continued)

There were no changes that occurred during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Mindo, S.r.l., the purchaser in 2004 of the Company's Italian subsidiary Dimon Italia, S.r.l., asserted claims against a subsidiary of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim involved a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction. On November 11, 2013, the court issued its judgment in favor of the Company's subsidiary, rejecting the claims asserted by Mindo, S.r.l., and awarding the Company's subsidiary legal costs of €0.05 million. The period for appeal of the court's judgment is pending, and it is uncertain whether Mindo S.r.l. will pursue an appeal.

Item 1A. Risk Factors

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None.

Item 6. Exhibits.

31.01 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.02 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

101.INS XBRL Instance Document (filed herewith)

101.SCH XBRL Taxonomy Extension Schema (filed herewith)

101.CAL XBRL Taxonomy Extension Calculation Linkbase (filed herewith)

101.DEF XBRL Taxonomy Extension Definition Linkbase (filed herewith)

101.LAB XBRL Taxonomy Extension Label Linkbase (filed herewith)

101.PRE XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

- 36 -

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Alliance One International, Inc. and Subsidiaries

SIGNATURE

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

Alliance One International, Inc.

Date: November 4, 2014

/s/ Nichlas A. Fink  
Nichlas A. Fink  
Vice President - Controller and Chief  
Compliance Officer

Alliance One International, Inc. and Subsidiaries

Index of Exhibits

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