

ALLIANCE ONE INTERNATIONAL, INC.
Form 10-Q
August 05, 2015

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 June 30 2015.

☐ 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 July 31, 2015, the registrant had 9,668,551 shares outstanding of Common Stock (no par value) excluding 785,312 shares owned by a wholly owned subsidiary. After the close of business on June 26, 2015, the registrant effected a one-for-ten reverse split of its Common Stock.

- 1 -

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 Three Months Ended June 30, 2015 and 2014	3
Condensed Consolidated Statements of Comprehensive Income (Loss) Three Months Ended June 30, 2015 and 2014	4
Condensed Consolidated Balance Sheets June 30, 2015 and 2014 and March 31, 2015	5
Condensed Statements of Consolidated Stockholders' Equity Three Months Ended June 30, 2015 and 2014	6
Condensed Consolidated Statements of Cash Flows Three Months Ended June 30, 2015 and 2014	7
Notes to Condensed Consolidated Financial Statements	8 – 24
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25 – 32
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
Item 4. Controls and Procedures	32 – 33
Part II. Other Information	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. <u>Mine Safety Disclosures</u>	33

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

Item 5.	Other Information	33
Item 6.	Exhibits	34
Signature		35
Index of Exhibits		36

- 2 -

Part I. Financial Information

Item 1. Financial Statements

Alliance One International, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 Three Months Ended June 30, 2015 and 2014
 (Unaudited)

(in thousands, except per share data)	Three Months Ended	
	June 30, 2015	2014
Sales and other operating revenues	\$263,812	\$249,017
Cost of goods and services sold	229,598	213,913
Gross profit	34,214	35,104
Selling, general and administrative expenses	29,939	31,325
Other income	586	800
Restructuring and asset impairment charges	2,948	—
Operating income	1,913	4,579
Interest expense (includes debt amortization of \$2,244 and \$1,552 for the three months in 2015 and 2014, respectively)	27,691	26,922
Interest income	1,374	1,351
Loss before income taxes and other items	(24,404)	)(20,992)
Income tax expense (benefit)	(1,362)	)(2,914)
Equity in net income (loss) of investee companies	132	(485)
Net loss	(22,910)	)(18,563)
Less: Net income (loss) attributable to noncontrolling interests	(7)	)55
Net loss attributable to Alliance One International, Inc.	\$(22,903)	)(18,618)
Loss per share:		
Basic	\$(2.58)	)(2.12)
Diluted	\$(2.58)	)(2.12)
Weighted average number of shares outstanding:		
Basic	8,862	8,799
Diluted	8,862	8,799

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended June 30, 2015

(Unaudited)

(in thousands)	Three Months Ended	
	June 30, 2015	2014
Net loss	\$(22,910	) \$(18,563)
Other comprehensive income (loss), net of tax:		
Currency translation adjustment	2,307	208
Defined benefit pension amounts reclassified to income	1,000	414
Total other comprehensive income (loss), net of tax	3,307	622
Total comprehensive income (loss)	(19,603	) (17,941)
Comprehensive income (loss) attributable to noncontrolling interests	(7	) 55
Comprehensive income (loss) attributable to Alliance One International, Inc.	\$(19,596	) \$(17,996)

See notes to condensed consolidated financial statements

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

(in thousands)	June 30, 2015	June 30, 2014	March 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	\$ 163,942	\$ 126,199	\$ 143,849
Trade and other receivables, net	177,759	186,860	200,403
Accounts receivable, related parties	89,285	76,672	41,816
Inventories	926,018	1,014,413	772,608
Advances to tobacco suppliers	47,273	58,563	38,589
Recoverable income taxes	5,851	5,991	5,257
Current deferred taxes, net	22,824	13,376	15,587
Prepaid expenses	24,179	34,213	23,541
Other current assets	14,795	14,074	14,606
Total current assets	1,471,926	1,530,361	1,256,256
Other assets			
Investments in unconsolidated affiliates	54,508	50,927	54,694
Goodwill and other intangible assets	30,994	34,235	31,891
Long-term recoverable income taxes	7,252	5,644	6,571
Deferred income taxes, net	29,394	40,878	31,649
Other deferred charges	18,296	19,711	17,695
Other noncurrent assets	27,141	39,015	27,858
	167,585	190,410	170,358
Property, plant and equipment, net	235,327	258,613	237,975
	\$ 1,874,838	\$ 1,979,384	\$ 1,664,589

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities			
Notes payable to banks	\$ 401,089	\$ 541,199	\$ 330,254
Accounts payable	77,758	89,054	73,358
Due to related parties	22,920	8,824	58,512
Advances from customers	20,042	40,889	18,906
Accrued expenses and other current liabilities	95,928	105,518	87,132
Income taxes	9,740	9,619	12,964
Long-term debt current	32,894	4,329	2,894
Total current liabilities	660,371	799,432	584,020
Long-term debt	894,059	825,423	738,943
Deferred income taxes	5,227	5,752	5,284
Liability for unrecognized tax benefits	8,226	9,526	8,826
Pension, postretirement and other long-term liabilities	89,301	79,719	91,252
	996,813	920,420	844,305

Commitments and contingencies

Stockholders' equity	June 30, 2015	June 30, 2014	March 31, 2015
Common Stock—no par value:			
Authorized shares	250,000	250,000	250,000
Issued shares	9,668	9,617	9,644
	469,357	466,267	468,564

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

Retained deficit	(192,316	) (172,606	) (169,413)
Accumulated other comprehensive loss	(62,854	) (37,479	) (66,161)
Total stockholders' equity of Alliance One International, Inc.	214,187	256,182	232,990	
Noncontrolling interests	3,467	3,350	3,274	
Total equity	217,654	259,532	236,264	
	\$1,874,838	\$1,979,384	\$1,664,589	

See notes to condensed consolidated financial statements

- 5 -

Alliance One International, Inc. and Subsidiaries

CONDENSED STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

(Unaudited)

Attributable to Alliance One International, Inc.

(in thousands)	Common Stock	Retained Deficit	Accumulated Other Comprehensive Loss Currency Translation Adjustment	Pensions, Net of Tax	Noncontrolling Interests	Total Equity
Balance, March 31, 2014	\$465,682	\$(153,988)	\$(1,640)	\$(36,461)	\$3,295	\$276,888
Net loss	—	(18,618)	—	—	55	(18,563)
Stock-based compensation	585	—	—	—	—	585
Other comprehensive income, net of tax	—	—	208	414	—	622
Balance, June 30, 2014	\$466,267	\$(172,606)	\$(1,432)	\$(36,047)	\$3,350	\$259,532
Balance, March 31, 2015	\$468,564	\$(169,413)	\$(14,154)	\$(52,007)	\$3,274	\$236,264
Net loss	—	(22,903)	—	—	(7)	(22,910)
Increase in capitalization of non-controlling interest	—	—	—	—	200	200
Stock-based compensation	793	—	—	—	—	793
Other comprehensive loss, net of tax	—	—	2,307	1,000	—	3,307
Balance, June 30, 2015	\$469,357	\$(192,316)	\$(11,847)	\$(51,007)	\$3,467	\$217,654

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 Three Months Ended June 30, 2015 and 2014
 (Unaudited)

(in thousands)	June 30, 2015	June 30, 2014
Operating activities		
Net loss	\$(22,910)	\$(18,563)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	7,064	7,500
Debt amortization/interest	2,596	1,889
(Gain) loss on foreign currency transactions	1,143	(331)
Restructuring and asset impairment charges	2,948	—
Stock-based compensation	1,104	750
Changes in operating assets and liabilities, net	(225,764)	(339,591)
Other, net	(234)	175
Net cash used by operating activities	(234,053)	(348,171)
Investing activities		
Purchases of property, plant and equipment	(6,179)	(8,052)
Proceeds from sale of property, plant and equipment	446	409
Restricted cash	(577)	(1,114)
Other, net	8	(719)
Net cash used by investing activities	(6,302)	(9,476)
Financing activities		
Net proceeds from short-term borrowings	79,440	329,572
Proceeds from long-term borrowings	185,000	—
Repayment of long-term borrowings	(242)	(75,489)
Debt issuance cost	(3,847)	(4,125)
Other, net	200	—
Net cash provided by financing activities	260,551	249,958
Effect of exchange rate changes on cash	(103)	(854)
Increase (decrease) in cash and cash equivalents	20,093	(108,543)
Cash and cash equivalents at beginning of period	143,849	234,742
Cash and cash equivalents at end of period	\$163,942	\$126,199
Other information:		
Cash paid for income taxes	\$6,177	\$2,638
Cash paid for interest	10,233	5,380
Cash received from interest	(1,370)	(1,276)

See notes to condensed consolidated financial statements

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. 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, 2015. Beginning April 1, 2015, the Company's management ceased evaluating performance of value added services as a separate operating segment. The Company's cut rag and other specialty products and services are now combined within the geographic operating segments in which they operate. The Company reviewed certain long-term financial performance and economic characteristics such as nature of products and services, production processes, type or class of customer, distribution methods for products and services, and regulatory environment. Based on review of the aggregation criteria, the Company concluded that Africa, Asia, Europe, and South America share similar economic indicators and are aggregated into one reportable segment "Other Regions." The Company concluded that the economic characteristics of North America are dissimilar from the other operating segments and is disclosing it separately.

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 \$5,377 and \$6,241 for the three months ended June 30, 2015 and 2014, respectively.

Other Deferred Charges

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

New Accounting Standards

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, 2018. The Company is currently evaluating the impact of this new guidance.

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.

In April 2015, the FASB issued new accounting guidance that changes the presentation of debt issuance costs in financial statements. The primary objective of this accounting guidance is to present these costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is still reported as interest expense. This accounting guidance is effective for the Company on April 1, 2016. The Company is currently evaluating the impact of this new guidance.

Alliance One International, Inc. and Subsidiaries

2. INCOME TAXES

Accounting for Uncertainty in Income Taxes

As of June 30, 2015, the Company's unrecognized tax benefits totaled \$15,934, all of which 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 June 30, 2015, accrued interest and penalties totaled \$624 and \$746 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 June 30, 2015, the Company's earliest open tax year for U.S. federal income tax purposes is its fiscal year ended March 31, 2012; however, the Company's net operating loss carryovers from prior periods remain subject to adjustment. Open tax years in state and foreign jurisdictions generally range from three to six years.

Provision for the Three Months Ended June 30, 2015

The effective tax rate used for the three months ended June 30, 2015 was 5.6% compared to 13.9% for the three months ended June 30, 2014. 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 exchanges losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits.

For the three months ended June 30, 2015, the Company recorded a discrete event adjustment expense of \$1,872, bringing the effective tax rate estimated for the three months of (2.1)% to 5.6%. 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 three months ended June 30, 2014, the Company recorded a discrete event adjustment benefit of \$1,410, bringing the effective tax rate estimated for the three months of 7.2% to 13.9%. This discrete event adjustment benefit 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 three months ended June 30, 2015 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:

	June 30, 2015	June 30, 2014	March 31, 2015
Amounts guaranteed (not to exceed)	\$238,566	\$283,228	\$300,557
Amounts outstanding under guarantee	165,222	186,522	185,486
Fair value of guarantees	7,723	7,262	8,650

Of the guarantees outstanding at June 30, 2015, 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 the joint venture in Brazil which is included in Accounts Receivable, Related Parties.

- 9 -

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 June 30, 2015 and 2014 and March 31, 2015, respectively, the Company had balances of \$11,212, \$15,863 and \$16,412 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

During the quarter ended March 31, 2015, the Company announced the first phase of a global restructuring plan focusing on efficiency and cost improvements. The Company reviewed origin and corporate operations and initiatives were implemented to increase operational efficiency and effectiveness. These initiatives continue to occur as the Company restructures certain operations not meeting strategic business objectives and performance metrics. During the three months ended June 30, 2015, the Company recorded \$375 of additional employee severance charges and \$2,573 of asset impairment charges in connection with the restructuring of certain operations primarily in Africa. The asset impairment charges are for unrecoverable tobacco supplier advances and tobacco production property and equipment due to exiting and redefining the Company's position in certain African markets. At June 30, 2015, the costs of any future initiatives are not estimable.

The following table summarizes the restructuring charges recorded in the Company's reporting segments during the three months ended June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,	
	2015	2014
Restructuring and Asset Impairment Charges		
Employee separation and other cash charges:		
Beginning balance	\$8,087	\$397
Period charges:		
Severance charges	375	—
Total period charges	375	—
Payments through June 30	(1,246)	(296)
Ending balance June 30	\$7,216	\$101
Asset impairment and other non-cash charges	\$2,573	\$—
Total restructuring charges for the period	\$2,948	\$—

On April 1, 2015, the Company revised its reportable segments. See Note 1 "Basis of Presentation and Significant Accounting Policies" to the "Notes to Condensed Consolidated Financial Statements." The following table summarizes the employee separations and other cash charges recorded in the Company's North America and Other Regions segment during the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
	2015	2014
Employee Separation and Other Cash Charges		
Beginning balance:	\$8,087	\$397
North America	—	—
Other regions	8,087	397
Period charges:	\$375	\$—

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

North America	—	—	
Other regions	375	—	
Payments through June 30	\$(1,246	)(296)
North America	—	—	
Other regions	(1,246	)(296)
Ending balance June 30	\$7,216	\$101	
North America	—	—	
Other regions	7,216	101	

- 10 -

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 periods provided below:

		Amortizable Intangibles			
	Goodwill (1)	Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	Total
Weighted average remaining useful life in years as of June 30, 2015		9.75	5.50	—	
March 31, 2014 balance					
Gross carrying amount	\$2,794	\$33,700	\$14,893	\$17,804	\$69,191
Accumulated amortization	—	(14,954)	(4,752)	(14,760)	(34,466)
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	—	—	—	429	429
Amortization expense	—	(1,264)	(888)	(621)	(2,773)
Net March 31, 2015	2,794	17,061	9,107	2,929	31,891
Amortization expense	—	(421)	(270)	(206)	(897)
Net June 30, 2015	\$2,794	\$16,640	\$8,837	\$2,723	\$30,994

(1) Goodwill of \$2,794 relates to the North America 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
July 1, 2015 through March 31, 2016	1,264	2,189	1,071	\$4,524
2017	1,685	1,405	740	3,830
2018	1,685	1,403	512	3,600
2019	1,685	1,397	259	3,341
2020	1,685	1,396	141	3,222
Later	8,636	1,047	—	9,683
	\$16,640	\$8,837	\$2,723	\$28,200

* Estimated amortization expense for the internally developed software is based on costs accumulated as of June 30, 2015. These estimates will change as new costs are incurred and until the software is placed into service in all locations.

- 11 -

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 June 30, 2015 and 2014, and March 31, 2015, the Company's investment in these joint ventures was \$53,491, \$49,911, and \$53,678, respectively and is classified as Investments in Unconsolidated Affiliates in the Condensed Consolidated Balance Sheets. The Company's advances to these joint ventures at June 30, 2015 and 2014, and March 31, 2015, respectively were \$3,796, \$8,222 and \$3,293 and are classified as Accounts Receivable, Related Parties in the Condensed Consolidated Balance Sheets. The Company guaranteed an amount to two joint ventures not to exceed \$111,622, \$137,333 and \$105,983 at June 30, 2015 and 2014, and March 31, 2015, respectively. The investments, advances and guarantees 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.

Beginning April 1, 2015, the Company has revised its reportable segments. Prior year segment data has been recast to conform with the current year segment presentation. See Note 1 "Basis of Presentation and Significant Accounting Policies" to the "Notes to Condensed Consolidated Financial Statements" for further information.

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.

The following table presents the summary segment information for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
	2015	2014
Sales and other operating revenues:		
North America	\$30,300	\$35,389
Other regions	233,512	213,628
Total revenue	\$263,812	\$249,017
Operating income:		
North America	\$607	\$1,912
Other regions	1,306	2,667
Total operating income	1,913	4,579

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

Interest expense	27,691	26,922	
Interest income	1,374	1,351	
Loss before income taxes and other items	\$(24,404	) \$(20,992)

Analysis of Segment Assets	June 30, 2015	June 30, 2014	March 31, 2015
Segment assets:			
North America	\$328,752	\$260,303	\$232,728
Other regions	1,546,086	1,719,081	1,431,861
Total assets	\$1,874,838	\$1,979,384	\$1,664,589

- 12 -

Alliance One International, Inc. and Subsidiaries

8. EARNINGS PER SHARE

After the close of all trading on June 26, 2015, the Company's approved 1-for-10 reverse stock split of its common stock became effective. As a result, every 10 shares of Alliance One common stock outstanding were combined into one share of Alliance One common stock, reducing the number of outstanding shares of the Company's common stock at June 26, 2015 from approximately 88.6 million shares to approximately 8.86 million shares. This change did not affect any shareholder's rights. No fractional shares were issued in connection with the reverse stock split. Instead, the Company issued one full share of the post-reverse stock split common stock to any shareholder who would have been entitled to receive a fractional share as a result of the reverse stock split. Each common shareholder holds the same percentage of the outstanding common stock immediately following the reverse split as that shareholder did immediately prior to the reverse split, except for minor adjustments due to the additional net share fraction issued as a result of the treatment of fractional shares. For the three months ended June 30, 2014, the weighted average number of common shares has been restated to a post-reverse stock split-adjusted basis.

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 785 at June 30, 2015 and 2014. 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 656 at a weighted average exercise price of \$60.39 per share at June 30, 2015 and 686 at a weighted average exercise price of \$60.42 per share at June 30, 2014.

In connection with the offering of the Company's 5.5% 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 \$50.28 per share on a post-reverse stock split basis. 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 ended June 30, 2015 and 2014, respectively.

Alliance One International, Inc. and Subsidiaries

8. EARNINGS PER SHARE (continued)

(in thousands, except per share data)	Three Months Ended	
	June 30, 2015	2014
BASIC LOSS		
Net loss attributable to Alliance One International, Inc.	\$(22,903)	\$(18,618)
SHARES		
Weighted average number of shares outstanding	8,862	8,799
BASIC LOSS PER SHARE	\$(2.58)	\$(2.12)
DILUTED LOSS		
Net loss attributable to Alliance One International, Inc.	\$(22,903)	\$(18,618)
Plus interest expense on 5 1/2% convertible notes, net of tax	—	— *
Net loss attributable to Alliance One International, Inc. as adjusted	\$(22,903)	\$(18,618)
SHARES		
Weighted average number of common shares outstanding	8,862	8,799
Plus: Restricted shares issued and shares applicable to stock options and restricted stock units, net of shares assumed to be purchased from proceeds at average market price	— *	— *
Assuming conversion of 5 1/2% convertible notes at the time of issuance	—	— *
Shares applicable to stock warrants	— **	— **
Adjusted weighted average number of common shares outstanding	8,862	8,799
DILUTED LOSS PER SHARE	\$(2.58)	\$(2.12)

* Assumed conversion of convertible notes at the beginning of the period has an antidilutive effect on earnings per share. The convertible notes matured during the three months ended September 30, 2014. All outstanding restricted shares and shares applicable to stock options and restricted stock units are excluded because their inclusion would have an antidilutive effect on the loss per share.

** For the three months ended June 30, 2015 and 2014, the warrants were not assumed exercised because the exercise price was more than the average price for the periods presented. The warrants began expiring October 15, 2014 and were fully expired on April 8, 2015.

9. STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense related to stock-based awards granted under its various employee and non-employee stock incentive plans of \$1,104 and \$750 for the three months ended June 30, 2015 and 2014, respectively, of which \$291 and \$19, respectively were with respect to stock-based awards payable in cash.

The Company's shareholders approved amendments to the 2007 Incentive Plan (the "2007 Plan") at its annual meetings of shareholders held 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 ended June 30, 2015 and 2014, respectively, the Company made the following stock-based compensation awards on a post-split basis:

Alliance One International, Inc. and Subsidiaries

9. STOCK-BASED COMPENSATION (continued)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014
(in thousands, except grant date fair value)		
Restricted Stock		
Number Granted	6	
Grant Date Fair Value	\$23.91	
Restricted Stock Units		
Number Granted		22
Grant Date Fair Value		\$27.20
Cash-Settled Restricted Stock Units		
Number Granted		44
Grant Date Fair Value		\$27.20
Performance Based Stock Units		
Number Granted		22
Grant Date Fair Value		\$27.20
Cash-Settled Performance Based Stock Units		
Number Granted		44
Grant Date Fair Value		\$27.20

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 \$4,246 and the total assessment including penalties and interest at June 30, 2015 is \$12,273. 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 \$5,890 at June 30, 2015, 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.

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

- 15 -

Alliance One International, Inc. and Subsidiaries

10. CONTINGENCIES AND OTHER INFORMATION (continued)

Non-Income Tax (continued)

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, and sought the recovery of €7,400 plus interest and costs. 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. On December 23, 2014, Mindo, S.r.l. appealed the judgment of the Court of Rome to the Court of Appeal of Rome. A hearing before the Court of Appeal of Rome was held on June 12, 2015, which was adjourned pending a further hearing set for February 2018. The outcome of, and timing of a decision on, the appeal are uncertain.

In addition to the above-mentioned matter, certain of the Company's subsidiaries are involved in other litigation or legal matters incidental to their business activities, including tax matters. While the outcome of these matters cannot be predicted with certainty, the Company is vigorously defending them and does not currently expect that any of them will have a material adverse effect on its business or financial position. However, should one or more of these matters be resolved in a manner adverse to its current expectation, the effect on the Company's results of operations for a particular fiscal reporting period could be material.

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

At June 30, 2015, \$185,000 was outstanding under the senior secured revolving credit facility. The Company continuously monitors its compliance with the covenants of its senior secured revolving 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 revolving 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.

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 June 30, 2015, 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.

Alliance One International, Inc. and Subsidiaries

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the fair value of the Company's derivatives by type at June 30, 2015 and 2014, and March 31, 2015.

Derivatives Not Designated as Hedging Instruments:	Fair Values of Derivative Instruments			
	Assets Balance Sheet Account	Fair Value	Liabilities Balance Sheet Account	Fair Value
Foreign currency contracts at June 30, 2015	Other Current Assets	\$609	Accrued Expenses and Other Current Liabilities	\$—
Foreign currency contracts at June 30, 2014	Other Current Assets	\$1,550	Accrued Expenses and Other Current Liabilities	\$—
Foreign currency contracts at March 31, 2015	Other Current Assets	\$1,373	Accrued Expenses and Other Current Liabilities	\$—

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 ended June 30, 2015 and 2014.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	
		Three Months Ended June 30, 2015	2014
Foreign currency contracts	Cost of goods and services sold	\$(1,392)	\$2,072

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.

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.

Alliance One International, Inc. and Subsidiaries

13. PENSION AND POSTRETIREMENT BENEFITS (continued)

Components of Net Periodic Benefit Cost

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

	Three Months Ended	
	June 30,	
	2015	2014
Service cost	\$527	\$510
Interest expense	1,462	1,693
Expected return on plan assets	(1,554)	(1,677)
Amortization of prior service cost	42	48
Actuarial loss	849	557
Net periodic pension cost	\$1,326	\$1,131

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 three months ended June 30, 2015, contributions of \$2,127 were made to pension plans for fiscal 2016. Additional contributions to pension plans of approximately \$6,552 are expected during the remainder of fiscal 2016. 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 June 30, 2015, contributions of \$170 were made to the plans for fiscal 2016. Additional contributions of \$560 to the plans are expected during the rest of fiscal 2016. The Company retains the right, subject to existing agreements, to modify or eliminate the postretirement medical benefits.

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	
	June 30,	
	2015	2014
Service cost	\$10	\$11
Interest expense	111	134
Amortization of prior service cost	(3)	(303)
Actuarial loss	112	111
Net periodic pension cost (benefit)	\$230	\$(47)

14. INVENTORIES

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

	June 30, 2015	June 30, 2014	March 31, 2015
Processed tobacco	\$658,304	\$650,180	\$506,637

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

Unprocessed tobacco	219,427	317,713	219,269
Other	48,287	46,520	46,702
	\$926,018	\$1,014,413	\$772,608

- 18 -

Alliance One International, Inc. and Subsidiaries

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 Translation Adjustment	Pensions, Net of Tax	Accumulated Other Comprehensive Loss	
Balances, March 31, 2015	\$(14,154	) \$(52,007	) \$(66,161)
Other comprehensive earnings before reclassifications	2,307	—	2,307	
Amounts reclassified to net earnings, net of tax	—	1,000	1,000	
Other comprehensive earnings, net of tax	2,307	1,000	3,307	
Balances, June 30, 2015	\$(11,847	) \$(51,007	) \$(62,854)
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)

The following table sets forth amounts by component, reclassified from accumulated other comprehensive loss to earnings for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
	2015	2014
Pension and postretirement plans (*):		
Actuarial loss	\$961	\$669
Amortization of prior service cost	39	(255
	\$1,000	\$414
Amounts reclassified from accumulated other comprehensive losses to net earnings	\$1,000	\$414

(*) 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 of trade receivables to a special purpose entity, which in turn sells 100% of the receivables to an unaffiliated financial institution. During the three months ended June 30, 2015, the designated pool was adjusted from up to \$250,000 trade receivables to \$150,000 trade receivables. 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 0.5% 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.

Alliance One International, Inc. and Subsidiaries

16. SALE OF RECEIVABLES (continued)

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 \$22,090, \$13,721 and \$20,396 as a result of the net settlement as of June 30, 2015 and 2014 and March 31, 2015, respectively. See Note 17 "Fair Value Measurements" to the "Notes to Condensed Consolidated Financial Statements" for further information.

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:

	June 30, 2015	2014	March 31, 2015
Receivables outstanding in facility	\$109,400	\$70,506	\$235,162
Beneficial interest	\$23,256	\$24,883	\$40,712
Servicing liability	\$22	\$43	\$131
Cash proceeds for the three months ended June 30:			
Cash purchase price	\$82,672	\$41,637	\$622,844
Deferred purchase price	44,663	38,502	229,573
Service fees	167	172	589
Total	\$127,502	\$80,311	\$853,006

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.

- 20 -

Alliance One International, Inc. and Subsidiaries

17. FAIR VALUE MEASUREMENTS (continued)

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.

	June 30, 2015	June 30, 2014	March 31, 2015
Carrying value	\$926,953	\$829,752	\$741,837
Estimated fair value	855,886	864,938	653,548

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 June 30, 2015 and 2014 and March 31, 2015 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 June 30, 2015 by \$72 and \$144, respectively.

Guarantees

The Company guarantees funds issued to tobacco suppliers by third party lending institutions and also guarantees funds borrowed by certain unconsolidated subsidiaries. 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 June 30, 2015 would change by \$690 or \$1,366, respectively.

Unconsolidated 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 June 30, 2015 would change by \$525 or \$1,039, 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:

	June 30, 2015			June 30, 2014			March 31, 2015		
			Total Assets / Liabilities at Fair Value			Total Assets / Liabilities at Fair Value			Total Assets / Liabilities at Fair Value
	Level 2	Level 3		Level 2	Level 3		Level 2	Level 3	
Assets									
Derivative financial instruments	\$609	\$—	\$609	\$1,550	\$—	\$1,550	\$1,373	\$—	\$1,373
Securitized beneficial interests	—	23,256	23,256	—	24,883	24,883	—	40,712	40,712
Total Assets	\$609	\$23,256	\$23,865	\$1,550	\$24,883	\$26,433	\$1,373	\$40,712	\$42,085
Liabilities									
Guarantees	\$—	\$7,723	\$7,723	\$—	\$7,262	\$7,262	\$—	\$8,650	\$8,650
Derivative financial instruments	—	—	—	—	—	—	—	—	—
Total liabilities	\$—	\$7,723	\$7,723	\$—	\$7,262	\$7,262	\$—	\$8,650	\$8,650

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 June 30, 2015	
	Securitized Beneficial Interests	Guarantees
Beginning Balance, March 31, 2015	\$40,712	\$8,650
Issuances of guarantees/sales of receivables	33,782	4,557
Settlements	(51,167)	(5,484)
Losses recognized in earnings	(71)	—
Ending Balance June 30, 2015	\$23,256	\$7,723
	Three Months Ended June 30, 2014	
	Securitized Beneficial Interest	Guarantees
Beginning Balance, March 31, 2014	\$35,559	\$7,344
Issuances of guarantees/sales of receivables	21,513	4,281
Settlements	(31,725)	(4,363)

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

Losses recognized in earnings	(464)—
Ending Balance June 30, 2014	\$24,883	\$7,262

The amount of unrealized losses relating to assets still held at the respective dates of June 30, 2015 and 2014 and March 31, 2015 were \$733, \$509 and \$2,034 on securitized beneficial interests.

Gains and losses included in earnings are reported in Other Income.

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 June 30, 2015:

	Fair Value at June 30, 2015		Unobservable Input	Range (Weighted Average)
Securitized Beneficial Interests	\$23,256	Discounted Cash Flow	Discount Rate	2.73% to 2.79%
			Payment Speed	82 to 99 days
Tobacco Supplier Guarantees	\$2,075	Historical Loss	Historical Loss	10.80% to 15.77%
Tobacco Supplier Guarantees	\$2,923	Discounted Cash Flow	Market Interest Rate	13.00% to 21.95%
Unconsolidated Subsidiary Guarantees	\$2,725	Discounted Cash Flow	Market Interest Rate	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:

	June 30, 2015	June 30, 2014	March 31, 2015
Balances:			
Accounts receivable, related parties	\$89,285	\$76,672	\$41,816
Due to related parties	22,920	8,824	58,512
		Three Months Ended June 30, 2015	2014
Transactions:			
Sales		\$7,563	\$—
Purchases		22,651	18,100

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 June 30, 2015, the basis difference was \$12,855.

Alliance One International, Inc. and Subsidiaries

20. SUBSEQUENT EVENT

On July 23, 2015, the Company's deconsolidated Zimbabwe subsidiary experienced a fire at its warehouse located in Harare which stored a portion of the green tobacco from the most recent harvest in that country. In addition to destroying green tobacco, the fire severely damaged the building and other fixed assets. The Company maintains insurance which provides for the recovery of loss from fire, including lost profit. The timing, and the exact amount, of insurance recovery related to the Harare fire is uncertain and an extended delay in receiving the full anticipated insurance recovery could adversely affect liquidity.

- 24 -

Alliance One International, Inc. and Subsidiaries

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

Beginning April 1, 2015, the Company's management ceased evaluating performance of its value added services as a separate operating segment. The Company's cut rag and other specialty products and services are now combined within the geographic operating segments in which they operate. In reviewing its operating segments, based on changes in its business, the Company has now concluded that the economic characteristics of North America are dissimilar from the other operating segments. As a result, the Company is disclosing North America separately and has aggregated the remaining four operating segments, Africa, Asia, Europe and South America into one reportable segment "Other Regions."

EXECUTIVE OVERVIEW

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

Financial Results

Despite global oversupply and reduced average sales prices, our sales for the first quarter improved 5.9% versus last year primarily due to increased volumes shipped from South America and enhanced customer demand for Asian products. Gross profit and gross profit as a percentage of sales decreased driven by Brazilian Real hedging expense, change in product mix, customer processing requirements and the weather-related delay in crop timing. Selling, general and administrative expenses decreased mainly due to lower travel and legal and professional fees. Restructuring and asset impairment charges in the first quarter were primarily attributable to impairment of advances to tobacco suppliers and property in Africa, due to our restructuring initiative that began in the fourth quarter of last fiscal year. Operating income decreased primarily due to the current period restructuring charges.

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. Again, this year, working capital and cash cycle improvements are focal areas. Our improved cost structure and well positioned inventories are important elements. Inventories are positioned below our internal plan and are below last year's quarter-end. In addition, total debt less cash decreased \$80.7 million when compared to the prior year, driven by the inventory reduction on lower green tobacco prices and a slow start to the current buying season. We will continue to monitor and adjust funding sources as needed to enhance and drive various business opportunities that maintain flexibility and meet cost expectations.

Outlook

Global markets are still in oversupply with some regions beginning to tighten. Market prices paid in U.S dollars for suppliers' green tobacco have again been generally lower this year, and conditions highlighted since the end of fiscal year 2014 when global oversupply was building have continued. We anticipate that oversupply will further correct through the current crop cycle. The South American and African markets have been delayed by 4 to 6 weeks this year mainly related to weather. As a result, we have experienced a slow start that is expected to improve through the year with sales building each subsequent quarter and resulting in improved full-year revenue when compared to last fiscal year. We continue to make progress toward our global plans and strategies. Those plans include investing in sustainable tobacco production where appropriate returns are achievable, eliminating costs from the supply chain and optimizing our global footprint to match future customer requirements. We have made solid progress in all these

initiatives during the quarter and expect execution of these plans to improve our results and shareholder value.

Alliance One International, Inc. and Subsidiaries

RESULTS OF OPERATIONS:

Condensed Consolidated Statement of Operations and Supplemental Information

	Three Months Ended June 30,			
(in millions, except per kilo amounts)	2015	Change \$	%	2014
Kilos sold	55.6	7.9	16.6	47.7
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$243.7	\$11.5	5.0	\$232.2
Average price per kilo	4.38	(0.49)	(10.1)	4.87
Processing and other revenues	20.1	3.3	19.6	16.8
Total sales and other operating revenues	263.8	14.8	5.9	249.0
Tobacco cost of goods sold:				
Tobacco costs	203.1	7.7	3.9	195.4
Transportation, storage and other period costs	9.2	(1.7)	(15.6)	10.9
Derivative financial instrument and exchange losses	3.6	4.8	(400.0)	(1.2)
Total tobacco cost of goods sold	215.9	10.8	5.3	205.1
Average cost per kilo	3.88	(0.42)	(9.7)	4.30
Processing and other revenues cost of services sold	13.7	4.9	55.7	8.8
Total cost of goods and services sold	229.6	15.7	7.3	213.9
Gross profit	34.2	(0.9)	(2.6)	35.1
Selling, general and administrative expenses	30.0	(1.3)	(4.2)	31.3
Other income	0.6	(0.2)	(25.0)	0.8
Restructuring and asset impairment charges	2.9	2.9	100.0	—
Operating income	1.9	(2.7)	(58.7)	4.6
Interest expense	27.7	0.8	3.0	26.9
Interest income	1.4	—	—	1.4
Income tax expense (benefit)	(1.4)	1.5	51.7	(2.9)
Equity in net income (loss) of investee companies	0.1	0.6	120.0	(0.5)
Income (loss) attributable to noncontrolling interests	—	—	—	—
Loss attributable to Alliance One International, Inc.	\$(22.9)	\$(4.3)*	(23.1)	\$(18.6)*

* Amounts do not equal column totals due to rounding

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Summary. Total sales and other operating revenues increased 5.9% to \$263.8 million primarily due to a 16.6% increase in volumes resulting from the timing of shipments in South America and increased customer demand in Asia. Changes in product mix and customer mix in Asia lowered average sales prices and average tobacco costs on a per kilo basis. Processing revenue and cost of services increases are primarily related to processing for our former Brazilian subsidiary. As a result of the change in currency movement, product mix and customer processing

requirements, gross margin decreased 2.6% to \$34.2 million and gross margin as a percentage of sales decreased from 14.1% to 13.0%. Selling, general and administrative expense ("SG&A") decreased primarily from lower travel and legal and professional fees. Restructuring and asset impairment charges in the current period are primarily attributable to impairment of advances to tobacco suppliers and real property in Africa as a result of our restructuring initiative that began in the prior fiscal year. Due to the changes in our results for the quarter, operating income decreased 58.7% to \$1.9 million.

Our interest costs increased from the prior year primarily due to higher amortization of debt costs as lower average borrowings were offset by higher average rates. Our effective tax rate was 5.6% this year compared to 13.9% last year. The variance in the effective tax rate between this year and last year 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 quarters; certain losses for which no tax benefit is recorded; and, differences between discrete items recognized for the quarters that include changes in valuation allowanced, net exchanges losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits.

Alliance One International, Inc. and Subsidiaries

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

Results of Operations (continued)

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014 (continued)

North America Region

North America Region Supplemental Information

	Three Months Ended			
		June 30,		
	2015	Change	%	2014
		\$		
Kilos sold	5.9	(0.1	) (1.7	) 6.0
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$27.0	\$(2.7	) (9.1	) \$29.7
Average price per kilo	4.58	(0.37	) (7.5	) 4.95
Processing and other revenues	3.3	(2.4	) (42.1	) 5.7
Total sales and other operating revenues	30.3	(5.1	) (14.4	) 35.4
Tobacco cost of goods sold:				
Tobacco costs	21.3	(2.5	) (10.5	) 23.8
Transportation, storage and other period costs	1.7	0.5	41.7	1.2
Derivative financial instrument and exchange losses	0.7	0.5	250.0	0.2
Total tobacco cost of goods sold	23.7	(1.5	) (6.0	) 25.2
Average cost per kilo	4.02	(0.18	) (4.4	) 4.20
Processing and other revenues cost of services sold	1.9	(1.5	) (44.1	) 3.4
Total cost of goods and services sold	25.6	(3.0	) (10.5	) 28.6
Gross profit	4.7	(2.1	) (30.9	) 6.8
Selling, general and administrative expenses	4.1	(0.8	) (16.3	) 4.9
Other income	—	—	—	—
Restructuring and asset impairment charges	—	—	—	—
Operating income	\$0.6	\$(1.3	) (68.4	) \$1.9

Total sales and other operating revenues decreased 14.4% to \$30.3 million primarily due to a 7.5% decrease in average sales prices per kilo primarily due to product mix and a 42.1% decrease in processing and other revenues due to changes in customer requirements. Total volumes this year were consistent with the prior year although the lamina/byproduct mix changed. The change in product mix also lowered average tobacco costs and average tobacco costs on a per kilo basis. As a result of the change in product mix and customer processing requirements, gross margin decreased 30.9% to \$4.7 million compared to last year. Gross margin as a percentage of sales decreased 3.7 percentage basis points from 19.2% to 15.5% primarily due to period costs of our new U.S. cut rag facility that is not fully operational yet. Reductions in SG&A were attributable to lower taxes and licenses and allocations for general corporate services. Operating income declined 68.4% from the prior year as a result of the impact of the change in results for the region.

- 27 -

Alliance One International, Inc. and Subsidiaries

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

Results of Operations (continued)

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014 (continued)

Other Regions

Other Regions Supplemental Information

	Three Months Ended			
		June 30,	Change	
	2015	\$	%	2014
Kilos sold	49.7	8.0	19.2	41.7
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$216.7	\$14.2	7.0	\$202.5
Average price per kilo	4.36	(0.50)	(10.3)	4.86
Processing and other revenues	16.8	5.7	51.4	11.1
Total sales and other operating revenues	233.5	19.9	9.3	213.6
Tobacco cost of goods sold:				
Tobacco costs	181.8	10.2	5.9	171.6
Transportation, storage and other period costs	7.5	(2.2)	(22.7)	9.7
Derivative financial instrument and exchange gains	2.9	4.3	(307.1)	(1.4)
Total tobacco cost of goods sold	192.2	12.3	6.8	179.9
Average cost per kilo	3.87	(0.45)	(10.4)	4.31
Processing and other revenues cost of services sold	11.8	6.4	118.5	5.4
Total cost of goods and services sold	204.0	18.7	10.1	185.3
Gross profit	29.5	1.2	4.2	28.3
Selling, general and administrative expenses	25.9	(0.5)	(1.9)	26.4
Other income	0.6	(0.2)	(25.0)	0.8
Restructuring and asset impairment charges	2.9	2.9	100.0	—
Operating income	\$1.3	\$(1.4)	(51.9)	\$2.7

Total sales and other operating revenues increased 9.3% to \$233.5 million primarily due to a 19.2% increase in volumes sold primarily due to the timing of shipments in South America and increased customer demand in Asia. Average sales prices decreased 10.3% and average tobacco costs per kilo decreased 10.4% primarily due to product mix and customer mix in Asia. Processing and other revenues and processing costs increased primarily due to processing for our former Brazilian subsidiary and higher conversion costs in South America. As a result, gross margin increased 4.2% to \$29.5 million. Due to the result of currency movement and hedging losses primarily in South America, gross margin as a percentage of sales decreased from 13.2% to 12.6%. Decreases in SG&A are associated with reduced travel and legal and professional fees partially offset by lower allocations for general corporate services. Restructuring and asset impairment charges in the current year are primarily attributable to impairment of advances to tobacco suppliers and real property in Africa as a result of our restructuring initiative that began in the prior fiscal year. Primarily a result of restructuring and asset impairment charges, operating income decreased 51.9% to \$1.3 million this year.

- 28 -

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. 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.

As of June 30, 2015, we are approaching the seasonally adjusted high for our South American crop lines as we are completing purchasing and processing in these markets with shipping stepping into full mode. In Africa, purchasing will continue through August in most sourcing areas while processing and consequently shipping will peak in the second and third quarters. In Asia, the Chinese crop is fully processed and the Thai crops are fully purchased, with significant shipping still to come, while some Indian traditional crop is still left to purchase and process. The Indonesian purchasing season begins in August. Europe has completed purchases of the 2015 crop and is finishing processing with most shipping to come. North America is preparing to begin flue cured purchasing in August with processing and shipping to follow, which will commence its seasonally elevated working capital needs. Fluctuation 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 actively, and as needed on a currency-by-currency basis.

Working Capital

Our working capital increased from \$672.3 million at March 31, 2015 to \$811.5 million at June 30, 2015. Our current ratio was 2.2 to 1 at June 30, 2015 and March 31, 2015. The increase in working capital is primarily related to the seasonal buildup of inventories and advances to tobacco suppliers related to the timing of the Africa and South America crop cycles including the net advances to our Zimbabwe operation that is partially offset by the seasonal increase in notes payable to banks.

The following table is a summary of items from the Condensed Consolidated Balance Sheets and Condensed Statements of Consolidated Cash Flows. Approximately \$76.4 million of our outstanding cash balance at June 30, 2015 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		March 31,
(in millions except for current ratio)	June 30,	2014	2015
Cash and cash equivalents	\$163.9	\$126.2	\$143.8
Trade and other receivables, net	177.8	186.9	200.4
Inventories and advances to tobacco suppliers	973.3	1,073.0	811.2
Total current assets	1,471.9	1,530.4	1,256.3
Notes payable to banks	401.1	541.2	330.3
Accounts payable	77.8	89.1	73.4
Advances from customers	20.0	40.9	18.9
Total current liabilities	660.4	799.4	584.0
Current ratio	2.2 to 1	1.9 to 1	2.2 to 1
Working capital	811.5	731.0	672.3
Long-term debt	894.1	825.4	738.9
Stockholders' equity attributable to Alliance One International, Inc.	214.2	256.2	233.0
Net cash provided (used) by:			

Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q

Operating activities	(234.1	)(348.2	)	(55.2)
Investing activities	(6.3	)(9.5	)	(11.7)
Financing activities	260.6	250.0		(23.4)

- 29 -

Alliance One International, Inc. and Subsidiaries

LIQUIDITY AND CAPITAL RESOURCES: (continued)

Operating Cash Flows

Net cash used by operating activities decreased \$114.1 million in 2015 compared to 2014. The decrease in cash used was primarily due to less cash used for inventories and advances to tobacco suppliers in response to the timing of shipments and delays in the purchasing of the current African crops, and less cash used for receivables as well as payables in accordance with payment terms and timing of shipments. These decreases in cash used were partially offset by less cash from customer advances related to changes in customer requirements.

Investing Cash Flows

Net cash used by investing activities decreased \$3.2 million in 2015 compared to 2014. The decrease in cash used was primarily due to decreased purchases of property, plant and equipment due to timing of investment in capital assets and restrictions on cash in accordance with terms.

Financing Cash Flows

Net cash provided by financing activities increased \$10.6 million in 2015 compared to 2014. This increase is primarily due to increased proceeds from our revolver and lower repayment of long-term debt in accordance with terms. Partially offsetting the cash provided by net long-term borrowings is lower net proceeds from short-term borrowings due to lower tobacco inventory levels than the prior year as a result of the timing of shipments and the delay in purchasing the current crop in most African markets.

Debt Financing

We continue to finance our business with a combination of short-term and long-term seasonal credit lines, our senior secured revolving credit facility, long-term debt securities, customer advances and cash from operations when available. At June 30, 2015, we had cash of \$163.9 million and total debt outstanding of \$1,328.1 million comprised of \$431.1 million of short-term and long-term notes payable to banks, \$185.0 million of borrowings under the senior secured revolving credit facility, \$3.9 million of other long-term debt and \$708.1 million of 9.875% senior secured second lien notes. The \$70.8 million seasonal increase in notes payable to banks from March 31, 2015 to June 30, 2015 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 June 30, 2015 and 2014, respectively, were \$504.8 million at a weighted average interest rate of 4.9% and \$540.5 million at a weighted average interest rate of 4.7%. Aggregated peak borrowings by facility occurring at anytime during the three months ended June 30, 2015 and 2014 were repaid with cash provided by operating activities. Available credit as of June 30, 2015 was \$525.1 million comprised of \$25.3 million under our senior secured revolving credit facility, \$488.3 million of notes payable to banks and \$11.5 million of availability exclusively for letters of credit. In fiscal 2016, we expect to incur capital expenditures of approximately \$20.0 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 June 30, 2015 and payment of dividends is restricted under the terms of our senior secured 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.

- 30 -

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 June 30, 2015:

	Outstanding March 31, 2015	June 30 2015	June 30, 2015 Lines and Letters Available	Interest Rate	
Senior secured credit facility:					
Revolver ⁽¹⁾	\$—	\$185.0	25.3	5.6	%
Senior notes:					
9.875% senior notes due 2021	707.7	708.1	—	9.9	%
Long-term foreign seasonal borrowings	30.0	30.0	—	2.7	%
Other long-term debt	4.1	3.9	—	7.3	% ⁽²⁾
Notes payable to banks ⁽³⁾	330.3	401.1	488.3	5.2	% ⁽²⁾
Total debt	\$1,072.1	1,328.1	513.6		
Short term	\$330.3	\$401.1			
Long term:					
Long term debt current	\$2.9	\$32.9			
Long term debt	738.9	894.1			
	\$741.8	\$927.0			
Letters of credit	\$6.3	\$6.2	11.5		
Total credit available			\$525.1		

(1) As of June 30, 2015 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 three months ended June 30, 2015.

(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 June 30, 2015, we had approximately \$401.1 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$907.1 million subject to limitations as provided for in the agreement governing our revolving credit facility. Additionally against these lines there was \$11.5 million available in unused letter of credit capacity with \$6.2 million issued but unfunded.

The Company also has foreign seasonal borrowings with a maturity greater than one year. As of June 30, 2015, approximately \$30.0 million was drawn and outstanding with a maximum capacity totaling \$30.0 million.

Alliance One International, Inc. and Subsidiaries

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, 2018. The Company is currently evaluating the impact of this new guidance.

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.

In April 2015, the FASB issued new accounting guidance that changes the presentation of debt issuance costs in financial statements. The primary objective of this accounting guidance is to present these costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is still reported as interest expense. This accounting guidance is effective for the Company on April 1, 2016. The Company is currently evaluating the impact of this new guidance.

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, 2015 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, 2015. 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, 2015.

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 June 30, 2015. 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 June 30, 2015.

Alliance One International, Inc. and Subsidiaries

Item 4. Controls and Procedures (continued)

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.

There were no changes that occurred during the three months ended June 30, 2015 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, and sought the recovery of €7.4 million plus interest and costs. 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. On December 23, 2014, Mindo, S.r.l. appealed the judgment of the Court of Rome to the Court of Appeal of Rome. A hearing before the Court of Appeal of Rome was held on June 12, 2015, which was adjourned pending a further hearing set for February 2018. The outcome of, and timing of a decision on, the appeal are uncertain.

In addition to the above-mentioned matter, certain of the Company's subsidiaries are involved in other litigation or legal matters incidental to their business activities, including tax matters. While the outcome of these matters cannot be predicted with certainty, the Company is vigorously defending them and does not currently expect that any of them will have a material adverse effect on its business or financial position. However, should one or more of these matters be resolved in a manner adverse to its current expectation, the effect on the Company's results of operations for a particular fiscal reporting period could be material.

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.

- 33 -

Alliance One International, Inc. and Subsidiaries

Item 6. Exhibits.

- 3.01 Amended and Restated Articles of Incorporation of Alliance One International, Inc., as amended (filed herewith)
- 3.02 Amended and Restated Bylaws of Alliance One International, Inc. incorporated by reference to Exhibit 3.2 to Alliance One International, Inc.'s Current Report on Form 8-K, filed June 29, 2015 (SEC File No. 001-13684)
- 4.01 Form of certificate of common stock of Alliance One International, Inc., incorporated by reference to Exhibit 4.1 to Alliance One International, Inc.'s Current Report on Form 8-K, filed June 29, 2015 (SEC File No. 001-13684)
- 10.1 Third Amendment to Amended and Restated Credit Agreement dated as of June 2, 2015 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as administrative agent, incorporated by reference to Exhibit 10.04 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2015, filed June 8, 2015 (SEC File No. 001-13684)
- 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)

- 34 -

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: August 5, 2015

/s/ Nicholas A. Fink
Nichlas A. Fink
Vice President - Controller and Chief
Compliance Officer
(Principal Accounting Officer)

Alliance One International, Inc. and Subsidiaries

Index of Exhibits

Exhibits

3.01	Amended and Restated Articles of Incorporation of Alliance One International, Inc., as amended (filed herewith)
3.02	Amended and Restated Bylaws of Alliance One International, Inc., incorporated by reference to Exhibit 3.2 to Alliance One International, Inc.'s Current Report on Form 8-K, filed June 29, 2015 (SEC File No. 001-13684)
4.01	Form of certificate of common stock of Alliance One International, Inc., incorporated by reference to Exhibit 4.1 to Alliance One International, Inc.'s Current Report on Form 8-K, filed June 29, 2015 (SEC File No. 001-13684)
10.01	Third Amendment to Amended and Restated Credit Agreement dated as of June 2, 2015 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as administrative agent, incorporated by reference to Exhibit 10.04 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2015, filed June 8, 2015 (SEC File No. 001-13684)
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)