

ALLIANCE ONE INTERNATIONAL, INC.  
Form 10-Q  
February 06, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM  
10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED December 31, 2016.

☐ 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

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

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 January 31, 2017, the registrant had 8,949,345 shares outstanding of Common Stock (no par value) excluding 785,313 shares owned by a wholly owned subsidiary.

- 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<br>Three and Nine Months Ended December 31, 2016 and 2015                  | 3        |
| Condensed Consolidated Statements of Comprehensive Income (Loss)<br>Three and Nine Months Ended December 31, 2016 and 2015 | 4        |
| Condensed Consolidated Balance Sheets<br>December 31, 2016 and 2015 and March 31, 2016                                     | 5        |
| Condensed Statements of Consolidated Stockholders' Equity<br>Nine Months Ended December 31, 2016 and 2015                  | 6        |
| Condensed Consolidated Statements of Cash Flows<br>Nine Months Ended December 31, 2016 and 2015                            | 7        |
| Notes to Condensed Consolidated Financial Statements                                                                       | 8 – 27   |
| Item 2. Management's Discussion and Analysis<br>of Financial Condition and Results of Operations                           | 28 – 38  |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk                                                         | 38       |
| Item 4. Controls and Procedures                                                                                            | 38 – 39  |
| Part II. Other Information                                                                                                 |          |
| Item 1. Legal Proceedings                                                                                                  | 40       |
| Item 1A. Risk Factors                                                                                                      | 40       |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                                                        | 40       |
| Item 3. Defaults Upon Senior Securities                                                                                    | 40       |
| Item 4. <u>Mine Safety Disclosures</u>                                                                                     | 40       |

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

|                           |    |
|---------------------------|----|
| Item 5. Other Information | 40 |
| Item 6. Exhibits          | 41 |
| Signature                 | 42 |
| Index of Exhibits         | 43 |

- 2 -

---

## Part I. Financial Information

## Item 1. Financial Statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS  
 OF OPERATIONS  
 Three and Nine Months Ended December 31, 2016  
 and 2015  
 (Unaudited)

|                                                          | Three Months Ended<br>December 31, |           | Nine Months Ended<br>December 31, |             |
|----------------------------------------------------------|------------------------------------|-----------|-----------------------------------|-------------|
| (in<br>thousands,<br>except<br>per<br>share<br>data)     | 2016                               | 2015      | 2016                              | 2015        |
| Sales<br>and<br>other<br>operating<br>revenues           | \$454,535                          | \$491,139 | \$1,105,060                       | \$1,172,274 |
| Cost<br>of<br>goods<br>and<br>services<br>sold           | 389,383                            | 422,401   | 955,576                           | 1,019,265   |
| Gross<br>profit                                          | 65,152                             | 68,738    | 149,484                           | 153,009     |
| Selling,<br>general<br>and<br>administrative<br>expenses | 28,736                             | 29,124    | 100,904                           | 86,986      |
| Other<br>income                                          | 2,688                              | 594       | 4,311                             | 125         |
| Restructuring<br>and<br>asset<br>impairment<br>charges   | 450                                | 1,525     | 1,068                             | 4,087       |
| Operating<br>income                                      | 38,654                             | 38,683    | 51,823                            | 62,061      |
| Debt<br>retirement                                       | 2,339                              | —         | 2,339                             | —           |

|               |        |          |         |             |
|---------------|--------|----------|---------|-------------|
| expense       |        |          |         |             |
| Interest      |        |          |         |             |
| expense       |        |          |         |             |
| (includes     |        |          |         |             |
| debt          |        |          |         |             |
| amortization  |        |          |         |             |
| of            |        |          |         |             |
| \$2,649       |        |          |         |             |
| and           |        |          |         |             |
| \$2,497       |        |          |         |             |
| for           |        |          |         |             |
| the           |        |          |         |             |
| three         |        |          |         |             |
| months,       | 35,129 | 30,356   | 97,635  | 86,911      |
| and           |        |          |         |             |
| \$8,846       |        |          |         |             |
| and           |        |          |         |             |
| \$7,123       |        |          |         |             |
| for           |        |          |         |             |
| the           |        |          |         |             |
| nine          |        |          |         |             |
| months        |        |          |         |             |
| in            |        |          |         |             |
| 2016          |        |          |         |             |
| and           |        |          |         |             |
| 2015,         |        |          |         |             |
| respectively) |        |          |         |             |
| Interest      | 1,845  | 2,744    | 5,888   | 5,393       |
| income        |        |          |         |             |
| Income        |        |          |         |             |
| (loss)        |        |          |         |             |
| before        |        |          |         |             |
| income        | 3,031  | 11,071   | (42,263 | ) (19,457 ) |
| taxes         |        |          |         |             |
| and           |        |          |         |             |
| other         |        |          |         |             |
| items         |        |          |         |             |
| Income        |        |          |         |             |
| tax           | 20,977 | 1,930    | 20,774  | 21,617      |
| expense       |        |          |         |             |
| Equity        |        |          |         |             |
| in            |        |          |         |             |
| net           |        |          |         |             |
| income        | 2,351  | 2,544    | 290     | 5,679       |
| of            |        |          |         |             |
| investee      |        |          |         |             |
| companies     |        |          |         |             |
| Net           |        |          |         |             |
| income        | 15,595 | ) 11,685 | (62,747 | ) (35,395 ) |
| (loss)        |        |          |         |             |
| (138          | ) (50  | ) (127   | ) (115  | )           |

Less:  
Net  
loss  
attributable  
to  
noncontrolling  
interests  
Net  
income  
(loss)  
attributable  
to \$(15,457 ) \$11,735 \$(62,620 ) \$(35,280 )  
Alliance  
One  
International,  
Inc.

Income  
(loss)  
per  
share:  
Basic \$1.73 ) \$1.32 \$(7.02 ) \$(3.97 )  
Diluted \$1.73 ) \$1.32 \$(7.02 ) \$(3.97 )

Weighted  
average  
number  
of  
shares  
outstanding:  
Basic 8,889 8,923 8,878  
Diluted 8,889 8,923 8,878

See notes to condensed consolidated financial  
statements

Alliance One International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three and Nine Months Ended December 31, 2016 and 2015

(Unaudited)

| (in thousands)                                                               | Three Months<br>Ended December<br>31, |          | Nine Months Ended<br>December 31, |            |
|------------------------------------------------------------------------------|---------------------------------------|----------|-----------------------------------|------------|
|                                                                              | 2016                                  | 2015     | 2016                              | 2015       |
| Net Income (loss)                                                            | \$(15,595)                            | \$11,685 | \$(62,747)                        | \$(35,395) |
| Other comprehensive income (loss), net of tax:                               |                                       |          |                                   |            |
| Currency translation adjustment                                              | (4,529 )                              | (1,075 ) | (7,388 )                          | (432 )     |
| Defined benefit pension amounts reclassified to income:                      |                                       |          |                                   |            |
| Negative plan amendment/reclassified to liability                            | —                                     | 2,534    | —                                 | 7,220      |
| Curtailment                                                                  | —                                     | 1,062    | —                                 | 1,062      |
| Settlement                                                                   | 1,120                                 | —        | 1,120                             | —          |
| Amounts reclassified to income                                               | 461                                   | 725      | 1,382                             | 2,725      |
| Defined benefit plan adjustment                                              | 1,581                                 | 4,321    | 2,502                             | 11,007     |
| Total other comprehensive income (loss), net of tax                          | (2,948 )                              | 3,246    | (4,886 )                          | 10,575     |
| Total comprehensive income (loss)                                            | (18,543 )                             | 14,931   | (67,633 )                         | (24,820 )  |
| Comprehensive loss attributable to noncontrolling interests                  | (138 )                                | (50 )    | (127 )                            | (115 )     |
| Comprehensive income (loss) attributable to Alliance One International, Inc. | \$(18,405)                            | \$14,981 | \$(67,506)                        | \$(24,705) |

See notes to condensed consolidated financial statements

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

| (in thousands)                           | December 31,<br>2016 | December 31,<br>2015 | March 31,<br>2016 |
|------------------------------------------|----------------------|----------------------|-------------------|
| <b>ASSETS</b>                            |                      |                      |                   |
| Current assets                           |                      |                      |                   |
| Cash and cash equivalents                | \$ 296,490           | \$ 195,230           | \$ 199,720        |
| Trade receivables, net                   | 175,860              | 230,159              | 303,907           |
| Other receivables                        | 94,321               | 98,863               | 97,101            |
| Accounts receivable, related parties     | 12,015               | 7,058                | 1,920             |
| Inventories                              | 845,133              | 935,600              | 791,340           |
| Advances to tobacco suppliers            | 97,037               | 62,648               | 41,837            |
| Recoverable income taxes                 | 16,065               | 12,987               | 13,421            |
| Current deferred taxes, net              | —                    | 7,773                | —                 |
| Prepaid expenses                         | 18,012               | 23,257               | 20,016            |
| Other current assets                     | 15,615               | 13,529               | 21,096            |
| Total current assets                     | 1,570,548            | 1,587,104            | 1,490,358         |
| Other assets                             |                      |                      |                   |
| Investments in unconsolidated affiliates | 52,797               | 57,698               | 58,259            |
| Goodwill                                 | 16,463               | 2,794                | 16,463            |
| Other intangible assets                  | 47,317               | 26,454               | 50,571            |
| Long-term recoverable income taxes       | —                    | 7,786                | 8,686             |
| Deferred income taxes, net               | 45,079               | 24,208               | 38,773            |
| Other deferred charges                   | 4,819                | 5,049                | 3,934             |
| Other noncurrent assets                  | 37,490               | 20,812               | 23,629            |
|                                          | 203,965              | 144,801              | 200,315           |
| Property, plant and equipment, net       | 261,802              | 228,786              | 277,525           |
|                                          | \$ 2,036,315         | \$ 1,960,691         | \$ 1,968,198      |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|                                                         |            |            |            |
|---------------------------------------------------------|------------|------------|------------|
| Current liabilities                                     |            |            |            |
| Notes payable to banks                                  | \$ 558,095 | \$ 522,538 | \$ 475,989 |
| Accounts payable                                        | 50,400     | 57,548     | 81,649     |
| Due to related parties                                  | 7,258      | 30,137     | 20,490     |
| Advances from customers                                 | 17,504     | 20,661     | 9,895      |
| Accrued expenses and other current liabilities          | 90,372     | 109,044    | 74,425     |
| Income taxes                                            | 10,562     | 5,961      | 12,022     |
| Long-term debt current                                  | 10,356     | 30,269     | 356        |
| Total current liabilities                               | 744,547    | 776,158    | 674,826    |
| Long-term debt                                          | 969,253    | 909,444    | 910,214    |
| Deferred income taxes                                   | 25,298     | 2,341      | 16,924     |
| Liability for unrecognized tax benefits                 | 10,220     | 9,872      | 9,809      |
| Pension, postretirement and other long-term liabilities | 78,809     | 91,518     | 81,753     |
|                                                         | 1,083,580  | 1,013,175  | 1,018,700  |

Commitments and contingencies

|                      |                      |                      |                   |
|----------------------|----------------------|----------------------|-------------------|
| Stockholders' equity | December 31,<br>2016 | December 31,<br>2015 | March 31,<br>2016 |
|----------------------|----------------------|----------------------|-------------------|

Common Stock—no par value:

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

|                                                                |         |         |         |              |              |              |
|----------------------------------------------------------------|---------|---------|---------|--------------|--------------|--------------|
| Authorized shares                                              | 250,000 | 250,000 | 250,000 |              |              |              |
| Issued shares                                                  | 9,735   | 9,680   | 9,685   | 471,979      | 470,480      | 470,830      |
| Retained deficit                                               |         |         |         | (208,476     | ) (246,668   | ) (145,856 ) |
| Accumulated other comprehensive loss                           |         |         |         | (58,734      | ) (55,811    | ) (53,848 )  |
| Total stockholders' equity of Alliance One International, Inc. |         |         |         | 204,769      | 168,001      | 271,126      |
| Noncontrolling interests                                       |         |         |         | 3,419        | 3,357        | 3,546        |
| Total equity                                                   |         |         |         | 208,188      | 171,358      | 274,672      |
|                                                                |         |         |         | \$ 2,036,315 | \$ 1,960,691 | \$ 1,968,198 |

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)                                         | Attributable to Alliance One International,<br>Inc. |                     |                                                                                  |                            |                             |                 |
|--------------------------------------------------------|-----------------------------------------------------|---------------------|----------------------------------------------------------------------------------|----------------------------|-----------------------------|-----------------|
|                                                        | Common<br>Stock                                     | Retained<br>Deficit | Accumulated Other<br>Comprehensive<br>Loss<br>Currency Translation<br>Adjustment | Pensions,<br>Net of<br>Tax | Noncontrolling<br>Interests | Total<br>Equity |
| Balance, March 31, 2015                                | \$468,564                                           | \$(211,388)         | \$(14,154)                                                                       | \$(52,232)                 | \$ 3,274                    | \$194,064       |
| Net loss                                               | —                                                   | (35,280 )           | —                                                                                | —                          | (115 )                      | (35,395 )       |
| Increase in capitalization of non-controlling interest | —                                                   | —                   | —                                                                                | —                          | 198                         | 198             |
| Stock-based compensation                               | 2,075                                               | —                   | —                                                                                | —                          | —                           | 2,075           |
| Restricted stock surrendered                           | (159 )                                              | —                   | —                                                                                | —                          | —                           | (159 )          |
| Other comprehensive loss, net of tax                   | —                                                   | —                   | (432 )                                                                           | 11,007                     | —                           | 10,575          |
| Balance, December 31, 2015                             | \$470,480                                           | \$(246,668)         | \$(14,586)                                                                       | \$(41,225)                 | \$ 3,357                    | \$171,358       |
| Balance, March 31, 2016                                | \$470,830                                           | \$(145,856)         | \$(14,046)                                                                       | \$(39,802)                 | \$ 3,546                    | \$274,672       |
| Net income (loss)                                      | —                                                   | (62,620 )           | —                                                                                | —                          | (127 )                      | (62,747 )       |
| Restricted stock surrendered                           | (31 )                                               | —                   | —                                                                                | —                          | —                           | (31 )           |
| Stock-based compensation                               | 1,180                                               | —                   | —                                                                                | —                          | —                           | 1,180           |
| Other comprehensive income (loss), net of tax          | —                                                   | —                   | (7,388 )                                                                         | 2,502                      | —                           | (4,886 )        |
| Balance, December 31, 2016                             | \$471,979                                           | \$(208,476)         | \$(21,434)                                                                       | \$(37,300)                 | \$ 3,419                    | \$208,188       |

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Nine Months Ended December 31, 2016 and 2015  
 (Unaudited)

| (in thousands)                                                              | December<br>31, 2016 | December<br>31, 2015 |
|-----------------------------------------------------------------------------|----------------------|----------------------|
| Operating activities                                                        |                      |                      |
| Net loss                                                                    | \$(62,747 )          | \$(35,395 )          |
| Adjustments to reconcile net loss to net cash used by operating activities: |                      |                      |
| Depreciation and amortization                                               | 25,859               | 21,018               |
| Debt amortization/interest                                                  | 10,142               | 8,207                |
| Debt retirement                                                             | 2,339                | —                    |
| (Gain) loss on foreign currency transactions                                | (10,780 )            | 16,713               |
| Restructuring and asset impairment charges                                  | 1,068                | 4,087                |
| Gain on sale of property, plant and equipment                               | (490 )               | (496 )               |
| Bad debt expense (recovery)                                                 | (2,801 )             | (181 )               |
| Equity in net income of unconsolidated affiliates, net of dividends         | 4,194                | (3,710 )             |
| Stock-based compensation                                                    | 1,360                | 2,323                |
| Changes in operating assets and liabilities, net                            | (10,588 )            | (358,192 )           |
| Other, net                                                                  | 180                  | 620                  |
| Net cash used by operating activities                                       | (42,264 )            | (345,006 )           |
| Investing activities                                                        |                      |                      |
| Purchases of property, plant and equipment                                  | (9,483 )             | (13,356 )            |
| Proceeds from sale of property, plant and equipment                         | 771                  | 1,072                |
| Surrender of life insurance policies                                        | —                    | 1,657                |
| Other, net                                                                  | 66                   | (266 )               |
| Net cash used by investing activities                                       | (8,646 )             | (10,893 )            |
| Financing activities                                                        |                      |                      |
| Net proceeds from short-term borrowings                                     | 93,552               | 203,968              |
| Proceeds from long-term borrowings                                          | 472,484              | 210,000              |
| Repayment of long-term borrowings                                           | (400,355 )           | (2,867 )             |
| Debt issuance cost                                                          | (17,618 )            | (5,325 )             |
| Debt retirement cost                                                        | (73 )                | —                    |
| Other, net                                                                  | —                    | 303                  |
| Net cash provided by financing activities                                   | 147,990              | 406,079              |
| Effect of exchange rate changes on cash                                     | (310 )               | 1,201                |
| Increase in cash and cash equivalents                                       | 96,770               | 51,381               |
| Cash and cash equivalents at beginning of period                            | 199,720              | 143,849              |
| Cash and cash equivalents at end of period                                  | \$296,490            | \$195,230            |
| Other information:                                                          |                      |                      |
| Cash paid for income taxes                                                  | \$7,147              | \$12,445             |
| Cash paid for interest                                                      | 64,322               | 58,240               |

|                             |       |       |
|-----------------------------|-------|-------|
| Cash received from interest | 5,888 | 5,606 |
|-----------------------------|-------|-------|

See notes to condensed consolidated financial statements

- 7 -

---

Alliance One International, Inc. and Subsidiaries

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, 2016.

In fiscal 2006, the Company deconsolidated its Zimbabwe subsidiary, Mashonaland Tobacco Company LTD ("MTC"), in accordance with accounting requirements that apply to foreign subsidiaries that are subject to foreign exchange controls and other government restrictions that casted significant doubt on the parent's ability to control the subsidiary. As of March 31, 2016, the Company determined that significant doubt about its ability to control MTC was eliminated due to changes in the political landscape and the recent issuance of clarifications to the indigenization laws within Zimbabwe. As a result, the Company reconsolidated MTC on March 31, 2016. Beginning April 1, 2016, the financial results of MTC are included in the consolidated statements of operations, consolidated balance sheet and consolidated statement of cash flows.

Prior to March 31, 2016, the Company accounted for its investment in MTC on the cost method and had been reporting it in Investments in Unconsolidated Affiliates in the Consolidated Balance Sheets since March 31, 2006 and had written its investment in MTC down to zero in fiscal 2007.

Restatement of Previously Reported Financial Information

During the year ended March 31, 2016, the Company identified certain immaterial errors in previously issued financial statements related to inventory, cost of goods sold and income tax. In addition, the Company corrected the classification of amounts between line items on the Consolidated Balance Sheets included in the previously issued financial statements. The correction of these immaterial errors and reclassification between line items at March 31, 2015 also impact the previously reported balances at December 31, 2015. For the three months and nine months ended December 31, 2015, cost of goods sold was adjusted by \$165 and \$801, respectively. For the nine months ended December 31, 2015, inventory was adjusted by \$581, recoverable income tax was adjusted by \$1,822 and retained earnings was adjusted by \$2,403. In addition, reclassifications of \$11,808 between "Accounts receivable, related parties" and "Pension, postretirement and other long-term liabilities" were made. The Company has evaluated the effect of the above misstatements on its condensed consolidated financial statements for the three months and nine months ended December 31, 2015 in accordance with the guidance provided by SEC Staff Accounting Bulletin No. 108, codified as SAB Topic 1.N, "Considering the Effects of Prior Year Misstatement When Quantifying Misstatements in the Current Year Financial Statements," and concluded that the three months and nine months ended December 31, 2015 were not materially misstated. See Note 20 "Restatement of Previously Reported Financial Information" to the "Notes to Condensed Consolidated Financial Statements" for the impact of this change on selected financial amounts.

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 \$5,412 and \$5,796 for the three months ended December 31, 2016 and 2015, respectively and \$18,003 and \$14,408 for the nine months ended December 31, 2016 and 2015, 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 Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that changed the presentation of debt issuance costs in financial statements. The primary objective of this accounting guidance was 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. The Company adopted this guidance on April 1, 2016 on a retrospective basis. On the condensed consolidated balance sheets, \$10,343 and \$9,875 were reclassified from Other Deferred Charges to Long-Term Debt at December 31, 2015 and March 31, 2016, respectively. See Note 20 "Restatement of Previously Reported Financial Information" to the "Notes to Condensed Consolidated Financial Statements."

- 8 -

---

Alliance One International, Inc. and Subsidiaries

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the 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, as amended, is effective for the Company on April 1, 2018. The Company is evaluating alternative methods of adoption and the effect on its financial statements and related disclosures.

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 does not expect this new guidance to have a material impact on its financial condition or results of operations.

In May 2015, the FASB issued new accounting guidance for disclosures of investments that calculate net asset value per share (or its equivalent). The primary objective is to reduce the diversity in practice on how these investments are categorized in the fair value hierarchy. This accounting guidance is effective for the Company on March 31, 2017. The Company does not expect this new guidance to have a material impact on its financial condition or results of operations.

In July 2015, the FASB issued new accounting guidance that simplifies the measurement of inventory. Under the previous accounting guidance, an entity measured inventory at the lower of cost or market with market defined as one of three different measures. The primary objective of this accounting guidance is to require a single measurement of inventory at the lower of cost and net realizable value. This accounting guidance is effective for the Company on April 1, 2017. The Company does not expect this new guidance to have a material impact on its financial condition or results of operations.

In January 2016, the FASB issued new accounting guidance regarding certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The primary objective of this accounting guidance is to provide users of financial statements with more decision-useful information. The accounting guidance will be effective for the Company on April 1, 2018. The Company is currently evaluating the impact of this guidance.

In February 2016, the FASB issued new accounting guidance regarding the treatment of leases. The primary objective of this accounting guidance is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This accounting guidance will be effective for the Company April 1, 2020. The Company is currently evaluating the impact of this new guidance.

In March 2016, the FASB issued new accounting guidance for simplifying the treatment of employee share-based payments. The primary objective is improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of information provided to users of financial statements. This accounting guidance will be effective for the Company on April 1, 2017. The Company does not expect this new guidance to have a material impact on its financial condition or results of operations.

In June 2016, the FASB issued new accounting guidance on the measurement of credit losses on financial instruments. The primary objective is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This accounting guidance will be effective for the Company on April 1, 2020. The Company is currently evaluating the impact of this new guidance.

In August of 2016, the FASB issued new accounting guidance that clarifies the classification of certain cash receipts and cash payments. The primary objective is to reduce the diversity in practice on how these activities are presented on the statement of cash flows. This accounting guidance will be effective for the Company on March 31, 2018. The

company is currently evaluating the impact of this new guidance.

In November of 2016, the FASB issued new accounting guidance that clarifies the presentation of restricted cash on the statement of cash flows. The primary objective is to reduce diversity in practice on how restricted cash is presented on the statement of cash flows. This accounting guidance will be effective for the Company on April 1, 2018. The Company is currently evaluating the impact of this new guidance.

## 2. INCOME TAXES

### Accounting for Uncertainty in Income Taxes

As of December 31, 2016, the Company's unrecognized tax benefits totaled \$16,682, 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 December 31, 2016, accrued interest and penalties totaled \$1,588 and \$960 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. During the three months ended December 31, 2016, the Zimbabwe High Court of Harare rejected the Company's appeal relating to the recovery of an income tax receivable for certain withholding taxes which were assessed against the Company's subsidiary in Switzerland. As a

Alliance One International, Inc. and Subsidiaries

2. INCOME TAXES (continued)

Accounting for Uncertainty in Income Taxes (continued)

result, the Company concluded it was no longer more-likely-than-not that the receivable will be realized and a non-cash tax provision of approximately \$9,000 was recorded as a discrete adjustment to tax expense. The tax expense recognized this quarter does not impact cash flow as the Company had previously made a deposit of the amount due as part of the appeal process. The Company plans to appeal the adverse decision to the Supreme Court of Zimbabwe.

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 December 31, 2016, the Company's earliest open tax year for U.S. federal income tax purposes is its fiscal year ended March 31, 2013; 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 Nine Months Ended December 31, 2016

The effective tax rate used for the nine months ended December 31, 2016 was (49.2)% compared to (111.1)% for the nine months ended December 31, 2015. The effective tax rates for these periods are based on the current estimate of full year results including the effect of taxes related to discrete events which are recorded in the interim period in which they occur. The difference in the effective tax rate in one year compared to another is the result of many factors that include, but are not limited to, differences in forecasted income for the respective years, differences in year-to-date income for the periods, certain losses for which no tax benefit is recorded; and, differences between discrete items recognized for the periods that include changes in valuation allowances, net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits.

For the nine months ended December 31, 2016, the Company recorded a discrete event adjustment expense of \$6,821, bringing the effective tax rate estimated for the nine months of (33.0)% to (49.2)%. This discrete event adjustment expense relates primarily to net exchange gains on income tax accounts, net exchange losses related to liabilities for unrecognized tax benefits and the release of uncertain tax positions. For the nine months ended December 31, 2015, the Company recorded a discrete event adjustment expense of \$9,492, bringing the effective tax rate estimated for the nine months of (62.3)% to (111.1)%. This discrete event adjustment expense relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. The significant difference in the estimated effective tax rate for the nine months ended December 31, 2016 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 and Brazil.

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

|                                     | December 31,<br>2016 | December 31,<br>2015 | March 31,<br>2016 |
|-------------------------------------|----------------------|----------------------|-------------------|
| Amounts guaranteed (not to exceed)  | \$ 184,096           | \$ 256,300           | \$ 210,703        |
| Amounts outstanding under guarantee | 86,218               | 131,706              | 107,615           |
| Fair value of guarantees            | 4,759                | 5,852                | 7,350             |

Of the guarantees outstanding at December 31, 2016, 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 the joint venture in Brazil which is included in Accounts Receivable, Related Parties.

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 March 31, 2016, the Company had a balance of \$16,699 that was due to local banks on behalf of suppliers. As of December 31, 2016 and 2015, there were no amounts due. These amounts are included in Accounts Payable in the Condensed Consolidated Balance Sheets.

## Alliance One International, Inc. and Subsidiaries

## 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 be implemented as the Company restructures certain operations not meeting strategic business objectives and performance metrics. During the three months ended December 31, 2016, the Company recorded \$420 for employee severance charges, primarily related to certain operations in Africa, and \$30 for other cash charges. During the nine months ended December 31, 2016, severance charges were \$483, other cash charges were \$90 and asset impairment charges, primarily related to the Company's formerly used cut rag facility, were \$495. During the three months ended December 31, 2015, the Company recorded \$127 of employee severance charges and \$1,398 of asset impairment charges primarily related to changes in certain U.S. pension plans and equipment located in Bulgaria. During the nine months ended December 31, 2015, the Company recorded \$116 of employee severance charges and \$3,971 of asset impairment charges in connection with the restructuring of certain operations primarily in Africa and Bulgaria and changes to certain U.S. pension plans.

The following table summarizes the restructuring charges recorded during the three months and nine months ended December 31, 2016 and 2015, respectively:

|                                             | Three Months<br>Ended<br>December 31, |          | Nine Months<br>Ended December<br>31, |          |
|---------------------------------------------|---------------------------------------|----------|--------------------------------------|----------|
|                                             | 2016                                  | 2015     | 2016                                 | 2015     |
| Restructuring and Asset Impairment Charges  |                                       |          |                                      |          |
| Employee separation and other cash charges: |                                       |          |                                      |          |
| Beginning balance                           | \$80                                  | \$1,563  | \$398                                | \$8,087  |
| Period charges:                             |                                       |          |                                      |          |
| Severance charges                           | 420                                   | 127      | 483                                  | 116      |
| Other cash charges                          | 30                                    | —        | 90                                   | —        |
| Total period charges                        | 450                                   | 127      | 573                                  | 116      |
| Payments through December 31                | (62 )                                 | (1,052 ) | (503 )                               | (7,565 ) |
| Ending balance December 31                  | \$468                                 | \$638    | \$468                                | \$638    |
| Asset impairment and other non-cash charges | \$—                                   | \$1,398  | \$495                                | \$3,971  |
| Total restructuring charges for the period  | \$450                                 | \$1,525  | \$1,068                              | \$4,087  |

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 and nine months ended December 31, 2016 and 2015:

|                                            | Three Months<br>Ended<br>December 31, |            | Nine Months<br>Ended December<br>31, |            |
|--------------------------------------------|---------------------------------------|------------|--------------------------------------|------------|
|                                            | 2016                                  | 2015       | 2016                                 | 2015       |
| Employee Separation and Other Cash Charges |                                       |            |                                      |            |
| Beginning balance:                         |                                       |            |                                      |            |
| North America                              | —                                     | —          | —                                    | —          |
| Other regions                              | 80                                    | 1,563      | 398                                  | 8,087      |
| Period charges:                            |                                       |            |                                      |            |
| North America                              | 45                                    | —          | 45                                   | —          |
| Other regions                              | 405                                   | 127        | 528                                  | 116        |
| Payments through December 31               | \$(62 )                               | \$(1,052 ) | \$(503 )                             | \$(7,565 ) |
| North America                              | —                                     | —          | —                                    | —          |
| Other regions                              | (62 )                                 | (1,052 )   | (503 )                               | (7,565 )   |
| Ending balance December 31                 | \$468                                 | \$638      | \$468                                | \$638      |

|               |     |     |     |     |
|---------------|-----|-----|-----|-----|
| North America | 45  | —   | 45  | —   |
| Other regions | 423 | 638 | 423 | 638 |

## 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:

|                                                                         | Goodwill<br>(1) | Amortizable Intangibles<br>Customer Relationship<br>Intangible | Production and Supply<br>Contract Intangibles | Internally Developed<br>Software Intangible | Total     |
|-------------------------------------------------------------------------|-----------------|----------------------------------------------------------------|-----------------------------------------------|---------------------------------------------|-----------|
| Weighted average remaining useful life in years as of December 31, 2016 | —               | 12.25                                                          | 4.00                                          | —                                           | —         |
| March 31, 2015 balance                                                  |                 |                                                                |                                               |                                             |           |
| Gross carrying amount                                                   | \$ 2,794        | \$33,700                                                       | \$ 14,893                                     | \$ 18,502                                   | \$69,889  |
| Accumulated amortization                                                | —               | (16,639 )                                                      | (5,786 )                                      | (15,573 )                                   | (37,998 ) |
| Net March 31, 2015                                                      | 2,794           | 17,061                                                         | 9,107                                         | 2,929                                       | 31,891    |
| Amortization expense                                                    | —               | (842 )                                                         | (542 )                                        | (409 )                                      | (1,793 )  |
| Net September 30, 2015                                                  | 2,794           | 16,219                                                         | 8,565                                         | 2,520                                       | 30,098    |
| Amortization expense                                                    | —               | (421 )                                                         | (237 )                                        | (192 )                                      | (850 )    |
| Net December 31, 2015                                                   | 2,794           | 15,798                                                         | 8,328                                         | 2,328                                       | 29,248    |
| Additions                                                               | 13,669          | 24,830                                                         | —                                             | —                                           | 38,499    |
| Amortization expense                                                    | —               | (422 )                                                         | (46 )                                         | (245 )                                      | (713 )    |
| Net March 31, 2016                                                      | 16,463          | 40,206                                                         | 8,282                                         | 2,083                                       | 67,034    |
| Amortization expense                                                    | —               | (1,670 )                                                       | (118 )                                        | (381 )                                      | (2,169 )  |
| Net September 30, 2016                                                  | 16,463          | 38,536                                                         | 8,164                                         | 1,702                                       | 64,865    |
| Amortization expense                                                    | —               | (835 )                                                         | (67 )                                         | (183 )                                      | (1,085 )  |
| Net December 31, 2016                                                   | 16,463          | 37,701                                                         | 8,097                                         | 1,519                                       | 63,780    |

(1) Goodwill of \$2,794 relates to the North America segment and \$13,669 relates to the Other Regions segment.

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

| For Fiscal<br>Years Ended              | Customer Relationship<br>Intangible | Production and Supply<br>Contract Intangible | Internally Developed<br>Software Intangible* | Total    |
|----------------------------------------|-------------------------------------|----------------------------------------------|----------------------------------------------|----------|
| January 1, 2017 through March 31, 2017 | \$ 835                              | \$ 1,097                                     | \$ 284                                       | \$2,216  |
| 2018                                   | 3,340                               | 1,405                                        | 620                                          | 5,365    |
| 2019                                   | 3,340                               | 1,405                                        | 367                                          | 5,112    |
| 2020                                   | 3,340                               | 1,397                                        | 248                                          | 4,985    |
| 2021                                   | 3,340                               | 1,397                                        | —                                            | 4,737    |
| Later                                  | 23,506                              | 1,396                                        | —                                            | 24,902   |
|                                        | \$ 37,701                           | \$ 8,097                                     | \$ 1,519                                     | \$47,317 |

\* Estimated amortization expense for the internally developed software is based on costs accumulated as of December 31, 2016. These estimates will change as new costs are incurred and until the software is placed into service

in all locations.

- 12 -

---

## 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 ventures' 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 December 31, 2016 and 2015, and March 31, 2016, the Company's investment in these joint ventures was \$51,781, \$56,682, and \$57,243, respectively and is classified as Investments in Unconsolidated Affiliates in the Condensed Consolidated Balance Sheets. The Company's advances to these joint ventures at December 31, 2016 and 2015, and March 31, 2016, respectively were \$12,015, \$3,484 and \$1,920 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 \$85,004, \$95,486 and \$100,238 at December 31, 2016 and 2015, and March 31, 2016, 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.

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 and nine months ended December 31, 2016 and 2015:

|                                                   | Three Months<br>Ended December<br>31, |           | Nine Months Ended<br>December 31, |             |
|---------------------------------------------------|---------------------------------------|-----------|-----------------------------------|-------------|
|                                                   | 2016                                  | 2015      | 2016                              | 2015        |
| Sales and other operating revenues:               |                                       |           |                                   |             |
| North America                                     | \$108,869                             | \$148,971 | \$217,629                         | \$244,101   |
| Other regions                                     | 345,666                               | 342,168   | 887,431                           | 928,173     |
| Total revenue                                     | \$454,535                             | \$491,139 | \$1,105,060                       | \$1,172,274 |
| Operating income:                                 |                                       |           |                                   |             |
| North America                                     | \$5,685                               | \$8,642   | \$8,366                           | \$15,061    |
| Other regions                                     | 32,969                                | 30,041    | 43,457                            | 47,000      |
| Total operating income                            | 38,654                                | 38,683    | 51,823                            | 62,061      |
| Debt retirement expense                           | 2,339                                 | —         | 2,339                             | —           |
| Interest expense                                  | 35,129                                | 30,356    | 97,635                            | 86,911      |
| Interest income                                   | 1,845                                 | 2,744     | 5,888                             | 5,393       |
| Income (loss) before income taxes and other items | \$3,031                               | \$11,071  | \$(42,263)                        | \$(19,457)  |

| Analysis of     | December 31, | December     | March 31,    |
|-----------------|--------------|--------------|--------------|
| Segment Assets  | 2016         | 31, 2015     | 2016         |
| Segment assets: |              |              |              |
| North America   | \$ 465,925   | \$ 514,524   | \$ 338,833   |
| Other regions   | 1,570,390    | 1,446,167    | 1,629,365    |
| Total assets    | \$ 2,036,315 | \$ 1,960,691 | \$ 1,968,198 |

- 13 -

---

## Alliance One International, Inc. and Subsidiaries

## 8. EARNINGS PER SHARE

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 785 at December 31, 2016 and 2015. 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 459 at a weighted average exercise price of \$61.05 per share at December 31, 2016 and 471 at a weighted average exercise price of \$60.70 per share at December 31, 2015.

The following table summarizes the computation of earnings per share for the three months and nine months ended December 31, 2016 and 2015, respectively.

|                                                                                                                                                                               | Three Months<br>Ended December<br>31, |          | Nine Months Ended<br>December 31, |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|----------|-----------------------------------|------------|
| (in thousands, except per share data)                                                                                                                                         | 2016                                  | 2015     | 2016                              | 2015       |
| <b>BASIC INCOME (LOSS)</b>                                                                                                                                                    |                                       |          |                                   |            |
| Net income (loss) attributable to Alliance One International, Inc.                                                                                                            | \$(15,457)                            | \$11,735 | \$(62,620)                        | \$(35,280) |
| <b>SHARES</b>                                                                                                                                                                 |                                       |          |                                   |            |
| Weighted average number of shares outstanding                                                                                                                                 | 8,941                                 | 8,889    | 8,923                             | 8,878      |
| <b>BASIC INCOME (LOSS) PER SHARE</b>                                                                                                                                          | \$(1.73 )                             | \$1.32   | \$(7.02 )                         | \$(3.97 )  |
| <b>DILUTED INCOME (LOSS)</b>                                                                                                                                                  |                                       |          |                                   |            |
| Net income (loss) attributable to Alliance One International, Inc.                                                                                                            | \$(15,457)                            | \$11,735 | \$(62,620)                        | \$(35,280) |
| <b>SHARES</b>                                                                                                                                                                 |                                       |          |                                   |            |
| Weighted average number of common shares outstanding                                                                                                                          | 8,941                                 | 8,889    | 8,923                             | 8,878      |
| 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 | —                                     | *—       | —                                 | *—         |
| Adjusted weighted average number of common shares outstanding                                                                                                                 | 8,941                                 | 8,889    | 8,923                             | 8,878      |
| <b>DILUTED INCOME (LOSS) PER SHARE</b>                                                                                                                                        | \$(1.73 )                             | \$1.32   | \$(7.02 )                         | \$(3.97 )  |

\* 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.

## 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 \$395 and \$518 for the three months ended December 31, 2016 and 2015, respectively, of which \$60 and \$(82), respectively were with respect to stock-based awards payable in cash, and \$1,360 and \$2,323 for the nine months ended December 31, 2016 and 2015, respectively, of which \$180 and \$249, 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, and approved the 2016 Incentive Plan (the "2016 Plan") at its annual meeting of shareholders held on August 11, 2016. Each of the 2016 Plan and the 2007 Plan is an omnibus plan that provides the flexibility to grant a variety of equity awards including stock options, stock appreciation rights, stock awards, stock units, performance awards and incentive awards to officers, directors and employees of the Company.

During the three months and nine months ended December 31, 2016 and 2015, respectively, the Company made the following stock-based compensation awards:

## Alliance One International, Inc. and Subsidiaries

## 9. STOCK-BASED COMPENSATION (continued)

|                                              | Three Months<br>Ended<br>December 31, |         | Nine Months<br>Ended<br>December 31, |         |
|----------------------------------------------|---------------------------------------|---------|--------------------------------------|---------|
| (in thousands, except grant date fair value) | 2016                                  | 2015    | 2016                                 | 2015    |
| Restricted Stock                             |                                       |         |                                      |         |
| Number Granted                               | 8                                     | 5       | 21                                   | 17      |
| Grant Date Fair Value                        | \$19.20                               | \$11.47 | \$18.15                              | \$18.70 |
| Restricted Stock Units                       |                                       |         |                                      |         |
| Number Granted                               | —                                     | 28      | 56                                   | 28      |
| Grant Date Fair Value                        | \$—                                   | \$19.65 | \$17.76                              | \$19.65 |
| Cash-Settled Restricted Stock Units          |                                       |         |                                      |         |
| Number Granted                               | —                                     | 1       | —                                    | 1       |
| Grant Date Fair Value                        | \$—                                   | \$19.65 | \$—                                  | \$19.65 |
| Performance-Based Stock Units                |                                       |         |                                      |         |
| Number Granted                               | —                                     | —       | 28                                   | —       |
| Grant Date Fair Value                        | \$—                                   | \$—     | \$17.76                              | \$—     |

Restricted stock consists of shares issued to non-employee directors of the Company which are not subject to a minimum vesting period. Restricted stock units differ from restricted stock in that zero shares are issued until restrictions lapse. Restricted stock units granted during the nine months ended December 31, 2016 vest ratably over a three-year period. Under the terms of the Performance-Based Stock Units, shares ultimately issued will be contingent upon specified business performance goals.

On August 13, 2015, the Company's shareholders approved an exchange offer that allowed certain employees to surrender options and receive restricted stock units in exchange for these options. The offer was made on September 14, 2015 and applied only to grants made during fiscal years 2012 and 2013 having a pre-reverse stock split exercise price of \$6.00 which became \$60.00 per share after the reverse stock split effected on June 26, 2015. The exchange offer was consummated on October 13, 2015. This exchange was based on exchange of options that would vest as a fulfillment of service obligation to restricted stock units that will vest upon satisfaction of service obligations and the expense recognized in this exchange was based upon the original grant.

## 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 \$4,042 and the total assessment including penalties and interest at December 31, 2016 is \$12,973. 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 and the State of Rio Grande do Sul. These jurisdictions permit 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 governments regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of \$2,707 at December 31, 2016, 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

Alliance One International, Inc. and Subsidiaries

10. CONTINGENCIES AND OTHER INFORMATION (continued)

federal tax liabilities using IPI credits and recorded a liability in Pension, Postretirement and Other Long-Term Liabilities to reflect that the credits were not realizable at that time due to the prevalent legal uncertainty. On March 7, 2013, the Brazilian Supreme Court rendered a final decision in favor of the Company that recognized the validity of the IPI credits and secured the Company's right to benefit from the IPI credits earned from March 1983 to October 1990. This final decision expressly stated the Company has the right to the IPI credits. The Company estimated the total amount of the IPI credits to be approximately \$94,316 at March 31, 2013. Since the March 2013 ruling definitively (without the government's ability to appeal) granted the Company the ownership of the IPI credits generated between 1983 and 1990 the Company believed the amount of IPI credits that were used to offset other federal taxes in 2004 and 2005 were realizable beyond a reasonable doubt. Accordingly, and at March 31, 2013, the Company recorded the \$24,142 IPI credits it realized in the Statements of Consolidated Operations in Other Income. No further benefit has been recognized pending the outcome of the judicial procedure to ascertain the final amount as those amounts have not yet been realized.

Other

Mindo, S.r.l., the purchaser in 2004 of the Company's Italian subsidiary Dimon Italia, S.r.l., asserted claims against a subsidiary of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim involved a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction, 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 and therefore no amounts have been recorded.

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

On October 14, 2016, the Company issued \$275,000 in aggregate principal amount of 8.5% senior secured first lien notes due 2021 (the "First Lien Notes"), at an issue price of 99.085% of the face amount thereof, entered into an ABL credit agreement (the "ABL Credit Agreement") with certain bank lenders establishing a senior secured revolving asset-based lending facility (the "ABL Facility") of \$60,000 subject to a borrowing base composed of its eligible

accounts receivable and inventory, and used a portion of the net proceeds from the offering of the First Lien Notes to repay in full all outstanding indebtedness and accrued and unpaid interest owed under the Company's then existing senior secured revolving credit facility. Upon such repayment, Alliance One terminated the senior secured revolving credit facility.

The ABL credit agreement restricts the Company from paying any dividends during the term of this facility subject to the satisfaction of specified financial ratios. In addition, the indentures governing the First Lien Notes and its outstanding senior secured second lien notes due 2021 contain similar restrictions and also prohibit 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 December 31, 2016, the Company did not satisfy this fixed charge coverage ratio. The Company may from time to time not satisfy this ratio.

The terms of the First Lien Notes and the ABL Facility, and certain effects of these refinancing transactions, are summarized below:

#### First Lien Notes

The First Lien Notes, which bear interest at a rate of 8.500% per year, are payable semi-annually in arrears in cash on April 15 and October 15 of each year, beginning April 15, 2017, to holders of record at the close of business on the preceding April 1 and October 1, respectively. The First Lien Notes mature on April 15, 2021. The First Lien Notes are initially guaranteed on a senior secured basis by Alliance One's subsidiary, Alliance One Specialty Products, LLC (the "Initial Guarantor"), and each of its future material domestic subsidiaries are required to guarantee the First Lien Notes on a senior secured basis. The Initial Guarantor is

Alliance One International, Inc. and Subsidiaries

11. DEBT ARRANGEMENTS (continued)

not a material domestic subsidiary, and Alliance One currently has no material domestic subsidiaries. The Initial Guarantor and any future guarantors of the First Lien Notes are referred to as the “guarantors.” Alliance One’s and the guarantors’ obligations under the First Lien Notes and any guarantee of the First Lien Notes (and certain related obligations) and under the ABL Facility and any guarantee of the ABL Facility (and certain related obligations and obligations in respect of certain hedging arrangements) are secured by first-priority liens on substantially all of Alliance One’s and the guarantors’ tangible and intangible assets, subject to certain exceptions and permitted liens (the “Collateral”). Alliance One’s and the guarantors’ obligations under the First Lien Notes and any guarantee of the First Lien Notes (and certain related obligations) have first-priority in the waterfall set forth in a senior lien intercreditor agreement entered into in connection with the issuance of the First Lien Notes and the establishment of the ABL Facility (the “Senior Lien Intercreditor Agreement”) in respect of the liens on the Collateral that is not ABL Priority Collateral (as defined below), including owned material real property in the United States, capital stock of subsidiaries owned directly by Alliance One or a guarantor (except that, in the case of foreign subsidiaries, only capital stock of only direct foreign subsidiaries that are material are to be pledged and only 65% of the voting capital stock and 100% of the non-voting capital stock are to be pledged), existing and after acquired intellectual property rights, equipment, related general intangibles and instruments and certain other related assets of the foregoing and proceeds of the foregoing (collectively, the “Notes Priority Collateral”). Alliance One’s and the guarantors’ obligations under the ABL Facility and any guarantee of the ABL Facility (and certain related obligations and obligations in respect of certain hedging arrangements) have second-priority in the waterfall set forth in the Senior Lien Intercreditor Agreement in respect of the liens on the Notes Priority Collateral. Alliance One’s and the guarantors’ obligations under the First Lien Notes and any guarantee of the First Lien Notes (and certain related obligations) have second-priority in the waterfall set forth in the Senior Lien Intercreditor Agreement in respect of the liens on the Collateral consisting of accounts receivable, inventories, cash (other than identifiable cash proceeds of the Notes Priority Collateral), deposit accounts, related general intangibles and instruments, certain other related assets of the foregoing and proceeds of the foregoing (collectively, the “ABL Priority Collateral”). Alliance One’s and the guarantors’ obligations under the ABL Facility and any guarantee of the ABL Facility (and certain related obligations and obligations in respect of certain hedging arrangements) have first-priority in the waterfall set forth in the Senior Lien Intercreditor Agreement in respect of the liens on the ABL Priority Collateral. If a change of control (as defined in the indenture governing the First Lien Notes) occurs at any time, holders of the First Lien Notes will have the right, at their option, to require the Company to repurchase all or a portion of the First Lien Notes for cash at a price equal to 101% of the principal amount of First Lien Notes being repurchased, plus accrued and unpaid interest, to, but excluding, the date of repurchase. The indenture governing the First Lien Notes restricts (subject to exceptions and qualifications) the Company's ability and the ability of its restricted subsidiaries to, among other things, incur additional indebtedness or issue disqualified stock or preferred stock, pay dividends and make other restricted payments (including restricted investments), sell assets, create liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets, enter into transactions with its affiliates, enter into certain sale and leaseback transactions, create certain dividend and payment restrictions on its restricted subsidiaries, and designate its subsidiaries as unrestricted subsidiaries.

ABL Facility

The ABL Facility may be used for revolving credit loans, swingline loans and letters of credit from time to time up to an initial maximum principal amount of \$60,000, subject to the limitations described below in this paragraph. Under certain conditions, Alliance One may solicit the ABL Facility lenders or other prospective lenders to provide additional revolving loan commitments under the ABL Facility in an aggregate amount not to exceed \$15,000 (less the aggregate principal amount of any notes exceeding \$275,000 issued under the First Lien Notes Indenture). The maximum amount available under the revolving credit facility is limited by a borrowing base consisting of eligible

accounts receivable and inventory as follows:

85% of eligible accounts receivable, plus

the lesser of (i) 85% of the appraised net-orderly-liquidation value of eligible inventory or (ii) 65% of eligible inventory valued at the lower of cost (based on a first-in first-out basis) and market value thereof (net of intercompany profits).

The borrowing base is subject to a \$25,000 deduction and customary reserves, which are to be established by the agent for the ABL Facility lenders in its permitted discretion from time to time. At December 31, 2016, no borrowings were outstanding under the ABL Facility and \$60,000 was available for borrowing. Borrowing is permitted under the ABL Credit Facility only to the extent that, after consideration of the application of the proceeds of the borrowing, the Company's unrestricted cash and cash equivalents would not exceed \$180,000. At December 31, 2016, the Company's unrestricted cash and cash equivalents significantly exceeded \$180,000.

In addition, loans under the ABL Facility shall not be made if after incurrence of such loans there will be more than \$180,000 of unrestricted cash and cash equivalents in the aggregate on the consolidated balance sheet of the Company and its subsidiaries.

The ABL Facility permits both base rate borrowings and LIBOR borrowings. Borrowings under the ABL Facility bear interest at an annual rate equal to LIBOR plus 250 basis points or 150 basis points above base rate, as applicable, with a fee on

Alliance One International, Inc. and Subsidiaries

11. DEBT ARRANGEMENTS (continued)

ABL Facility (continued)

unused borrowings initially at an annual rate of 50 basis points until March 31, 2017 and thereafter at annual rates of either 37.5 or 50 basis points based on average quarterly historical utilization under the ABL Facility. The ABL Facility matures on January 14, 2021.

In addition, customary mandatory prepayments of the loans under the ABL Facility are required upon the occurrence of certain events including, without limitation, certain dispositions of assets outside of the ordinary course of business in respect of certain collateral securing the ABL Facility, unrestricted cash and cash equivalents on the Company's consolidated balance sheet exceeding \$180,000 for a period of seven consecutive business days, and certain casualty and condemnation events.

The Company's obligations under the ABL Facility (and certain related obligations and obligations in respect of certain hedging arrangements) are (a) guaranteed by the Initial Guarantor and are required to be guaranteed by each material domestic subsidiary of Alliance One (currently there are no material domestic subsidiaries of Alliance One) (collectively with the Company, the "Credit Parties") and (b) secured by the Collateral.

The liens and other security interests granted by the Credit Parties on the Collateral for the benefit of the ABL Lenders (and certain related secured parties) are, subject to certain permitted liens, secured by first-priority security interests on a pari passu

basis with the security interests securing the First Lien Notes, with respective priorities in a waterfall with respect to portions of the Collateral as set forth in the Senior Lien Intercreditor Agreement described above.

Under the terms of the ABL Facility, if (i) an event of default has occurred and is continuing or (ii) excess borrowing availability under the ABL Facility (based on the lesser of the commitments thereunder and the borrowing base) (the "Excess Availability") falls below the greater of (x) \$12,500 and (y) 25% of the lesser of (A) the commitments under the ABL Facility at such time and (B) the borrowing base at such time (such greater amount being the "Cash Dominion Threshold") for more than three consecutive business days, the Credit Parties will become subject to cash dominion, which will require daily prepayment of loans under the ABL Facility with the cash deposited in certain deposit accounts of the Credit Parties, including concentration accounts, and will restrict the Credit Parties' ability to transfer cash from their concentration accounts to their disbursement accounts. Such cash dominion period shall end when (i) if arising as a result of a continuing event of default, such event of default ceases to exist, or (ii) if arising as a result of non-compliance with the Excess Availability threshold, Excess Availability shall be equal to or greater than the Cash Dominion Threshold for a period of 30 consecutive days.

The ABL Credit Agreement governing the ABL Facility contains a springing covenant requiring that the Company's fixed charge coverage ratio be no less than 1.00 to 1.00 during any period commencing when our Excess Availability is less than the greater of (x) \$10,000 and (y) 20% of the lesser of (A) the commitments under the ABL Facility at such time and (B) the borrowing base at such time (such greater amount being the "Financial Covenant Threshold") until such time as our Excess Availability has been equal to or greater than the Financial Covenant Threshold for a period of 30 consecutive days.

The ABL Credit Agreement governing the ABL Facility contains customary representations and warranties, affirmative and negative covenants (subject, in each case, to exceptions and qualifications) and events of defaults, including covenants that limit the Company's ability to, among other things incur certain guarantees, merge, consolidate or dispose of substantially all of its assets, grant liens on assets, pay dividends, redeem stock or make other distributions or restricted payments, create certain dividend and payment restrictions on subsidiaries, repurchase or redeem capital stock or prepay subordinated or certain other material debt (including the First Lien Notes and the Company's senior secured second lien notes due 2021), make certain investments, agree to restrictions on the payment of dividends to Alliance One by its subsidiaries, sell or otherwise dispose of assets, including equity interests of subsidiaries, enter into transactions with affiliates, enter into certain sale and leaseback transactions.

The ABL credit agreement restricts the Company from paying any dividends during the term of this facility subject to the satisfaction of specified financial ratios. In addition, the indentures governing the Company's First Lien

Notes and its senior secured second lien notes due 2021 contain similar restrictions and also prohibits the payment of dividends and other distributions if the Company fails to satisfy a ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0. At September 30, 2016, the Company did not satisfy this fixed charge coverage ratio. The Company may from time to time not satisfy this ratio.

#### Termination of Existing Senior Secured Revolving Credit Facility

On October 14, 2016, the Company terminated its then existing senior secured revolving credit facility and repaid in full all outstanding indebtedness plus accrued and unpaid interest and other costs, of which \$73 was charged to debt retirement expense. As a result, the Company accelerated \$2,266 of deferred financing costs during the three months ended December 31, 2016.

## Alliance One International, Inc. and Subsidiaries

## 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.

At December 31, 2016 and 2015, and March 31, 2016, there were no derivatives outstanding.

## Earnings Effects of Derivatives

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

The following table summarizes the earnings effects of derivatives in the Condensed Consolidated Statements of Operations for the three months and nine months ended December 31, 2016 and 2015.

| Derivatives Not Designated<br>as Hedging Instruments | Location of Gain (Loss)<br>Recognized in Income | Gain (Loss)<br>Recognized in<br>Income              |                                                    |
|------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
|                                                      |                                                 | Three<br>Months<br>Ended<br>December<br>31,<br>2016 | Nine<br>Months<br>Ended<br>December<br>31,<br>2015 |

|                            |                                 |       |                |
|----------------------------|---------------------------------|-------|----------------|
| Foreign currency contracts | Cost of goods and services sold | \$-\$ | -\$-\$ (2,001) |
|----------------------------|---------------------------------|-------|----------------|

## 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.

During the nine months ended December 31, 2016, the Company's activity of cash payments triggered settlement accounting. The settlement accounting resulted in a settlement loss of \$1,120 recorded in Selling, General and Administrative Expenses and a reduction in accumulated other comprehensive income as of December 31, 2016. 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<br>Ended December<br>31, |          | Nine Months<br>Ended December<br>31, |          |
|------------------------------------|---------------------------------------|----------|--------------------------------------|----------|
|                                    | 2016                                  | 2015     | 2016                                 | 2015     |
| Service cost                       | \$120                                 | \$526    | \$360                                | \$1,555  |
| Interest expense                   | 1,176                                 | 1,462    | 3,528                                | 4,386    |
| Expected return on plan assets     | (1,403 )                              | (1,554 ) | (4,209 )                             | (4,663 ) |
| Amortization of prior service cost | 10                                    | 42       | 30                                   | 125      |
| Actuarial loss                     | 524                                   | 849      | 1,572                                | 2,548    |
| Settlement loss                    | 1,120                                 | —        | 1,120                                | —        |
| Curtailment loss                   | —                                     | 1,062    | —                                    | 1,062    |
| Net periodic pension cost          | \$1,547                               | \$2,387  | \$2,401                              | \$5,013  |

## 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 nine months ended December 31, 2016, contributions of \$3,629 were made to pension plans for fiscal 2017. Additional contributions to pension plans of approximately \$2,831 are expected during the remainder of fiscal 2017. 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 December 31, 2016, contributions of \$227 were made to the plans for fiscal 2017. Additional contributions of \$147 to the plans are expected during the rest of fiscal 2017. 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<br>Months<br>Ended<br>December<br>31, |         | Nine<br>Months<br>Ended<br>December<br>31, |        |
|-------------------------------------|---------------------------------------------|---------|--------------------------------------------|--------|
|                                     | 2016                                        | 2015    | 2016                                       | 2015   |
| Service cost                        | \$3                                         | \$—     | \$9                                        | \$20   |
| Interest expense                    | 67                                          | 59      | 201                                        | 280    |
| Amortization of prior service cost  | (177)                                       | (265 )  | (531)                                      | (271 ) |
| Actuarial loss                      | 104                                         | 99      | 312                                        | 323    |
| Net periodic pension cost (benefit) | \$(3)                                       | \$(107) | \$(9)                                      | \$352  |

## 14. INVENTORIES

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

|                     | December 31,<br>2016 | December 31,<br>2015 | March 31,<br>2016 |
|---------------------|----------------------|----------------------|-------------------|
| Processed tobacco   | \$ 716,743           | \$ 765,388           | \$ 584,158        |
| Unprocessed tobacco | 102,668              | 142,912              | 175,933           |
| Other               | 25,722               | 27,300               | 31,249            |
|                     | \$ 845,133           | \$ 935,600           | \$ 791,340        |

- 20 -

---

## 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<br>Translation<br>Adjustment | Pensions,<br>Net of<br>Tax | Accumulated<br>Other<br>Comprehensive<br>Loss |  |
|-------------------------------------------------------|---------------------------------------|----------------------------|-----------------------------------------------|--|
| Balances, March 31, 2016                              | \$ (14,046 )                          | \$(39,802)                 | \$ (53,848 )                                  |  |
| Other comprehensive loss before reclassifications     | (2,859 )                              | —                          | (2,859 )                                      |  |
| Amounts reclassified to net earnings, net of tax      | —                                     | 921                        | 921                                           |  |
| Other comprehensive earnings (loss), net of tax       | (2,859 )                              | 921                        | (1,938 )                                      |  |
| Balances, September 30, 2016                          | (16,905 )                             | (38,881 )                  | (55,786 )                                     |  |
| Other comprehensive loss before reclassifications     | (4,529 )                              | —                          | (4,529 )                                      |  |
| Amounts reclassified to net earnings, net of tax      | —                                     | 1,581                      | 1,581                                         |  |
| Other comprehensive earnings (loss), net of tax       | (4,529 )                              | 1,581                      | (2,948 )                                      |  |
| Balances, December 31, 2016                           | \$ (21,434 )                          | \$(37,300)                 | \$ (58,734 )                                  |  |
| Balances, March 31, 2015                              | \$ (14,154 )                          | \$(52,232)                 | \$ (66,386 )                                  |  |
| Other comprehensive earnings before reclassifications | 643                                   | 4,686                      | 5,329                                         |  |
| Amounts reclassified to net earnings, net of tax      | —                                     | 2,000                      | 2,000                                         |  |
| Other comprehensive earnings, net of tax              | 643                                   | 6,686                      | 7,329                                         |  |
| Balances, September 30, 2015                          | (13,511 )                             | (45,546 )                  | (59,057 )                                     |  |
| Other comprehensive earnings before reclassifications | (1,075 )                              | 2,534                      | 1,459                                         |  |
| Amounts reclassified to net earnings, net of tax      | —                                     | 1,787                      | 1,787                                         |  |
| Other comprehensive earnings, net of tax              | (1,075 )                              | 4,321                      | 3,246                                         |  |
| Balances, December 31, 2015                           | \$ (14,586 )                          | \$(41,225)                 | \$ (55,811 )                                  |  |

The following table sets forth amounts by component, reclassified from accumulated other comprehensive loss to earnings for the three months and nine months ended December 31, 2016 and 2015:

|                                                                                  | Three Months<br>Ended December<br>31,<br>2016 |         | Nine Months<br>Ended December<br>31,<br>2015 |         |
|----------------------------------------------------------------------------------|-----------------------------------------------|---------|----------------------------------------------|---------|
| Pension and postretirement plans (*):                                            |                                               |         |                                              |         |
| Actuarial loss                                                                   | \$628                                         | \$948   | \$1,883                                      | \$2,871 |
| Amortization of prior service cost                                               | (167 )                                        | (223 )  | (501 )                                       | (146 )  |
| Curtailement                                                                     | —                                             | 1,062   | —                                            | 1,062   |
| Settlement loss                                                                  | 1,120                                         | —       | 1,120                                        | —       |
| Amounts reclassified from accumulated other comprehensive losses to net earnings | \$1,581                                       | \$1,787 | \$2,502                                      | \$3,787 |

(\*) 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 two 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 nine months ended December 31, 2016, the investment limit of this program was adjusted from up to \$150,000 trade receivables to up to \$100,000 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.

- 21 -

---

## Alliance One International, Inc. and Subsidiaries

## 16. SALE OF RECEIVABLES (continued)

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.

The agreement for the second program also allows the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. This is an uncommitted program, 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 limit under this agreement is \$35,000. During fiscal 2016, the company had a third securitization program that operated similar to the second program, with an investment limit of \$100,000.

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 \$7,359, \$14,309, and \$9,113 as a result of the net settlement as of December 31, 2016 and 2015 and March 31, 2016, 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:

|                                                      | December 31, |           | March     |
|------------------------------------------------------|--------------|-----------|-----------|
|                                                      | 2016         | 2015      | 31, 2016  |
| Receivables outstanding in facility                  | \$108,464    | \$97,974  | \$188,764 |
| Beneficial interest                                  | \$21,081     | \$20,796  | \$40,368  |
| Servicing liability                                  | \$45         | \$21      | \$58      |
| Cash proceeds for the nine months ended December 31: |              |           |           |
| Cash purchase price                                  | \$416,754    | \$338,214 | \$585,648 |
| Deferred purchase price                              | 180,879      | 169,777   | 233,753   |
| Service fees                                         | 400          | 425       | 553       |
| Total                                                | \$598,033    | \$508,416 | \$819,954 |

## 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.

## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

These two types of inputs create the following fair value hierarchy:

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

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

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

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

## Debt

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

|                      | December 31, December 31, March 31, |            |           |
|----------------------|-------------------------------------|------------|-----------|
|                      | 2016                                | 2015       | 2016      |
| Carrying value       | \$ 993,853                          | \$ 950,056 | \$920,444 |
| Estimated fair value | 901,076                             | 786,520    | 753,038   |

## 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 December 31, 2016 and 2015 and March 31, 2016 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 December 31, 2016 by \$105 and \$211, respectively.

#### Guarantees

The Company guarantees certain 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.

- 23 -

---

## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

Tobacco supplier guarantees - The Company provides guarantees to certain 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 December 31, 2016 would change by \$726 or \$1,432, respectively.

## 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:

|                                  | December 31, 2016 |          | December 31, 2015 |          | March 31, 2016 |          |
|----------------------------------|-------------------|----------|-------------------|----------|----------------|----------|
|                                  | Total             |          | Total             |          | Total          |          |
|                                  | Assets /          |          | Assets /          |          | Assets /       |          |
|                                  | Liabilities       |          | Liabilities       |          | Liabilities    |          |
|                                  | Level 2           | Level 3  | Level 2           | Level 3  | Level 2        | Level 3  |
|                                  | at Fair Value     |          | at Fair Value     |          | at Fair Value  |          |
| Assets                           |                   |          |                   |          |                |          |
| Derivative financial instruments | \$—               | \$—      | \$—               | \$—      | \$—            | \$—      |
| Securitized beneficial interests | 21,081            | 21,081   | 20,796            | 20,796   | 40,368         | 40,368   |
| Total Assets                     | \$21,081          | \$21,081 | \$20,796          | \$20,796 | \$40,368       | \$40,368 |
| Liabilities                      |                   |          |                   |          |                |          |
| Guarantees                       | \$4,759           | \$4,759  | \$5,852           | \$5,852  | \$7,350        | \$7,350  |
| Derivative financial instruments | —                 | —        | —                 | —        | —              | —        |
| Total liabilities                | \$4,759           | \$4,759  | \$5,852           | \$5,852  | \$7,350        | \$7,350  |

## 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    |          | Nine Months Ended     |          |
|----------------------------------------------|-----------------------|----------|-----------------------|----------|
|                                              | December 31, 2016     |          | December 31, 2016     |          |
|                                              | Securitized           |          | Securitized           |          |
|                                              | Beneficial Guarantees |          | Beneficial Guarantees |          |
|                                              | Interests             |          | Interests             |          |
| Beginning Balance                            | \$29,371              | \$ 4,467 | \$40,368              | \$ 7,350 |
| Issuances of guarantees/sales of receivables | 61,371                | 1,272    | 164,228               | 5,397    |
| Settlements                                  | (68,503 )             | (980 )   | (181,230 )            | (7,960 ) |
| Losses recognized in earnings                | (1,158 )              | —        | (2,285 )              | (28 )    |
| Ending Balance December 31, 2016             | \$21,081              | \$ 4,759 | \$21,081              | \$ 4,759 |

|                                              | Three Months Ended    |          | Nine Months Ended     |          |
|----------------------------------------------|-----------------------|----------|-----------------------|----------|
|                                              | December 31, 2015     |          | December 31, 2015     |          |
|                                              | Securitized           |          | Securitized           |          |
|                                              | Beneficial Guarantees |          | Beneficial Guarantees |          |
|                                              | Interest              |          | Interest              |          |
| Beginning Balance                            | \$21,792              | \$ 4,865 | \$40,712              | \$ 8,650 |
| Issuances of guarantees/sales of receivables | 65,710                | 1,291    | 135,477               | 7,660    |

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

|                                  |           |          |           |          |
|----------------------------------|-----------|----------|-----------|----------|
| Settlements                      | (65,763 ) | (304 )   | (153,723) | (9,550 ) |
| Losses recognized in earnings    | (943 )    | —        | (1,670 )  | (908 )   |
| Ending Balance December 31, 2015 | \$20,796  | \$ 5,852 | \$20,796  | \$ 5,852 |

- 24 -

---

## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

The amount of unrealized losses relating to assets still held at the respective dates of December 31, 2016 and 2015 and March 31, 2016 were \$922, \$542 and \$1,521 on securitized beneficial interests.

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

## Information About Fair Value Measurements Using Significant Unobservable Inputs

The following table summarizes significant unobservable inputs and the valuation techniques thereof at December 31, 2016:

|                                  | Fair Value at December 31,<br>2016 |                      | Unobservable Input   | Range (Weighted Average) |
|----------------------------------|------------------------------------|----------------------|----------------------|--------------------------|
| Securitized Beneficial Interests | \$21,081                           | Discounted Cash Flow | Discount Rate        | 3.94% to 4.25%           |
|                                  |                                    |                      | Payment Speed        | 82 to 101 days           |
| Tobacco Supplier Guarantees      | \$708                              | Historical Loss      | Historical Loss      | 9.90% to 15.92%          |
| Tobacco Supplier Guarantees      | \$4,051                            | Discounted Cash Flow | Market Interest Rate | 16.50% to 38.00%         |

## 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:

|                                      | December 31,<br>2016 | December 31,<br>2015 | March 31,<br>2016 |
|--------------------------------------|----------------------|----------------------|-------------------|
| Balances:                            |                      |                      |                   |
| Accounts receivable, related parties | \$ 12,015            | \$ 7,058             | \$ 1,920          |
| Due to related parties               | 7,258                | 30,137               | 20,490            |

|               | Three<br>Months<br>Ended<br>December<br>31,<br>2016 | 2015   | Nine Months<br>Ended December<br>31,<br>2016 | 2015     |
|---------------|-----------------------------------------------------|--------|----------------------------------------------|----------|
| Transactions: |                                                     |        |                                              |          |
| Sales         | \$383                                               | \$ 430 | \$39,303                                     | \$15,940 |
| Purchases     | 11,687                                              | 50,830 | 39,231                                       | 129,961  |

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 equity basis investments 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%. The Company also has 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 \$15,990. 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 December 31, 2016, the basis difference was \$10,414.

- 25 -

---

## Alliance One International, Inc. and Subsidiaries

## 20. RESTATEMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION

As described in Note 1, “Basis of Presentation and Significant Accounting Policies” to the “Notes to Condensed Consolidated Financial Statements,” the Company identified and corrected certain misstatements relating to prior years’ consolidated financial statements that impact the December 31, 2015 condensed consolidated financial statements. In addition, the Company adopted new accounting guidance related to the classification of debt issuance costs on a retrospective basis that also impacts the December 31, 2015 condensed consolidated financial statements. The impact of these changes on selected financial amounts within the accompanying condensed consolidated financial statements are summarized below:

| (in thousands)                                              | Condensed Consolidated Statements of Operations<br>Three Months Ended December 31, 2015 |                                     |                   |                                              |                |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------|-------------------|----------------------------------------------|----------------|
|                                                             | As<br>Previously<br>Reported                                                            | Inventory<br>and Tax<br>Adjustments | Reclassifications | Adoption<br>of New<br>Accounting<br>Guidance | As<br>Restated |
| Cost of goods and services sold                             | \$422,566                                                                               | \$ (165 )                           | \$                | —\$                                          | —\$422,401     |
| Gross profit                                                | 68,573                                                                                  | 165                                 | —                 | —                                            | 68,738         |
| Operating income                                            | 38,518                                                                                  | 165                                 | —                 | —                                            | 38,683         |
| Income before income taxes and other items                  | 10,906                                                                                  | 165                                 | —                 | —                                            | 11,071         |
| Net income                                                  | 11,520                                                                                  | 165                                 | —                 | —                                            | 11,685         |
| Net income attributable to Alliance One International, Inc. | 11,570                                                                                  | 165                                 | —                 | —                                            | 11,735         |

| (in thousands)                                            | Condensed Consolidated Statements of Operations<br>Nine Months Ended December 31, 2015 |                                     |                   |                                              |              |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------------|-------------------|----------------------------------------------|--------------|
|                                                           | As<br>Previously<br>Reported                                                           | Inventory<br>and Tax<br>Adjustments | Reclassifications | Adoption<br>of New<br>Accounting<br>Guidance | As Restated  |
| Cost of goods and services sold                           | \$1,020,066                                                                            | \$ (801 )                           | \$                | —\$                                          | —\$1,019,265 |
| Gross profit                                              | 152,208                                                                                | 801                                 | —                 | —                                            | 153,009      |
| Operating income                                          | 61,260                                                                                 | 801                                 | —                 | —                                            | 62,061       |
| Income (loss) before income taxes and other items         | (20,258)                                                                               | )801                                | —                 | —                                            | (19,457 )    |
| Net loss                                                  | (36,196)                                                                               | )801                                | —                 | —                                            | (35,395 )    |
| Net loss attributable to Alliance One International, Inc. | (36,081)                                                                               | )801                                | —                 | —                                            | (35,280 )    |

- 26 -

---

## Alliance One International, Inc. and Subsidiaries

## 20. RESTATEMENT OF PREVIOUSLY REPORTED FINANCIAL INFORMATION (Continued)

Condensed Consolidated Balance Sheet as of  
December 31, 2015

| (in thousands)               | As<br>Previously<br>Reported | Inventory<br>and Tax<br>Adjustments | Reclassifications | Adoption of<br>New<br>Accounting<br>Guidance | As<br>Restated |
|------------------------------|------------------------------|-------------------------------------|-------------------|----------------------------------------------|----------------|
| Total current assets         | \$1,577,699                  | \$ (2,403 )                         | \$ 11,808         | \$ —                                         | \$1,587,104    |
| Total non-current assets     | 155,144                      | —                                   | —                 | (10,343)                                     | 144,801        |
| Total assets                 | 1,961,629                    | (2,403 )                            | 11,808            | (10,343)                                     | 1,960,691      |
| Non-current liabilities      | 1,011,710                    | —                                   | 11,808            | (10,343)                                     | 1,013,175      |
| Total equity                 | 173,761                      | (2,403 )                            | —                 | —                                            | 171,358        |
| Total liabilities and equity | 1,961,629                    | (2,403 )                            | 11,808            | (10,343)                                     | 1,960,691      |

## Statement of Consolidated Stockholders' Equity

| (in thousands)                        | As<br>Previously<br>Reported | Inventory<br>and Tax<br>Adjustments | Reclassifications | Adoption of<br>New<br>Accounting<br>Guidance | As<br>Restated |
|---------------------------------------|------------------------------|-------------------------------------|-------------------|----------------------------------------------|----------------|
| Retained Deficit at March 31, 2015    | \$(208,184)                  | \$ (3,204 )                         | \$ —              | —\$                                          | —\$(211,388)   |
| Net loss                              | (36,081 )                    | 801                                 | —                 | —                                            | (35,280 )      |
| Retained Deficit at December 31, 2015 | (244,265 )                   | (2,403 )                            | —                 | —                                            | (246,668 )     |

Consolidated Balance Sheet as of  
March 31, 2016

| (in thousands)               | As<br>Previously<br>Reported | Inventory<br>and Tax<br>Adjustments | Reclassifications | Adoption of<br>New<br>Accounting<br>Guidance | As<br>Restated |
|------------------------------|------------------------------|-------------------------------------|-------------------|----------------------------------------------|----------------|
| Total non-current assets     | \$210,190                    | \$—                                 | —                 | —\$ (9,875 )                                 | \$200,315      |
| Total assets                 | 1,978,073                    | —                                   | —                 | (9,875 )                                     | 1,968,198      |
| Non-current liabilities      | 1,028,575                    | —                                   | —                 | (9,875 )                                     | 1,018,700      |
| Total liabilities and equity | 1,978,073                    | —                                   | —                 | (9,875 )                                     | 1,968,198      |

Alliance One International, Inc. and Subsidiaries

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

EXECUTIVE OVERVIEW

The following executive overview for the three months ended December 31, 2016 is intended to provide significant highlights of the discussion and analysis that follows.

Financial Results

For the three months, total sales and other operating revenues and total costs of goods and services sold decreased primarily due to changes in product mix, smaller crops in the U.S. and Tanzania related to El Niño weather conditions, and the stronger U.S. dollar that resulted in lower prices paid to tobacco suppliers across most regions which also resulted in reduced average sales prices and tobacco costs per kilo. Processing and other revenues and processing costs decreases were related to the impact of the weather on the U.S. crop this year, and the timing of processing customer requirements in South America. As a result, gross profit decreased while gross profit as a percentage of sales improved to 14.3% compared to 14.0% in the prior year. Volumes decreased slightly as the smaller crops were significantly offset by the timing of shipments and prior year inventory sales in most regions. Selling, general and administrative expense decreases were primarily from the non-recurrence of reserves for customer receivables in the prior year that were offset by increased personnel costs. With other income increases mainly attributable to net insurance recovery related to tobacco lost by fire in Zimbabwe last year and lower restructuring and asset impairment charges this year, operating income was consistent with the prior year.

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. Our liquidity position is strong at \$623.9 million as of December 31, 2016, comprised of \$296.5 million of cash and \$327.4 million of available credit lines. Account receivable and inventory reductions generated \$144.8 million of cash at December 31, 2016, when compared to the same period end of the prior year. Also, during the quarter we refinanced our existing senior secured revolving credit facility with the issuance of \$275.0 million of senior secured first lien notes due April 2021 and a \$60.0 million ABL credit facility that matures in January 2021. As part of the refinancing, we eliminated certain financial covenants that enhance business flexibility. 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

While it is still early, as we look to next fiscal year La Niña weather patterns, that support better global growing conditions, are present and should support crop size increases in a number of key markets. As such, initial reports indicate larger 2017 crops that we have begun to purchase in Brazil and will start to purchase in Africa during the quarter ending March 31, 2017, which are planned to be sold during our fiscal year ending March 31, 2018. The 2016 Brazilian Virginia flue crop was abnormally low at approximately 410.0 million kilos versus 570.0 million in the prior year. The 2017 crop is anticipated to be approximately 50% larger at 600.0 million kilos and current quality appears to be good and in line with expectations. We are expecting similar positive crop size increases in other key markets. In addition, we are confident in the underlying strength of our Company and ability to navigate challenging industry dynamics. The impact of our implemented strategic initiatives should be recognized as crop sizes return to more normal levels in certain markets related to crops we are now buying and will sell next fiscal year. Additionally, our talented employees continue to develop new, cost-effective solutions to meet changing customer requirements. Our

customers are focused on their supply chains, increasing regulation and changing nicotine consumption habits. Supply chain simplification is a priority for them, and we have the capabilities and infrastructure to further support our customers' reversal of their partial vertical integration strategies. Further, our agronomy and operational teams are well-positioned to support manufacturers' next generation reduced risk products. Continued focus on key strategic initiatives that support our customers' growth strategies should drive improved long-term shareholder value.

- 28 -

---

## Alliance One International, Inc. and Subsidiaries

## RESULTS OF OPERATIONS:

## Condensed Consolidated Statement of Operations and Supplemental Information

|                                                                | Three Months Ended December 31, |            |           | Nine Months Ended December 31, |           |           |          |           |
|----------------------------------------------------------------|---------------------------------|------------|-----------|--------------------------------|-----------|-----------|----------|-----------|
|                                                                | Change                          |            |           | Change                         |           |           |          |           |
| (in millions, except per kilo amounts)                         | 2016                            | \$         | %         | 2015                           | 2016      | \$        | %        | 2015      |
| Kilos sold                                                     | 101.6                           | (0.7 )     | (0.7 )    | 102.3                          | 251.6     | 8.8       | 3.6      | 242.8     |
| Tobacco sales and other operating revenues:                    |                                 |            |           |                                |           |           |          |           |
| Sales and other operating revenues                             | \$434.1                         | \$(26.9 )  | (5.8 )    | \$461.0                        | \$1,034.0 | \$(74.1 ) | (6.7 )   | \$1,108.1 |
| Average price per kilo                                         | 4.27                            | (0.24 )    | (5.3 )    | 4.51                           | 4.11      | (0.45 )   | (9.9 )   | 4.56      |
| Processing and other revenues                                  | 20.4                            | (9.7 )     | (32.2 )   | 30.1                           | 71.1      | 6.9       | 10.7     | 64.2      |
| Total sales and other operating revenues                       | 454.5                           | (36.6 )    | (7.5 )    | 491.1                          | 1,105.1   | (67.2 )   | (5.7 )   | 1,172.3   |
| Tobacco cost of goods sold:                                    |                                 |            |           |                                |           |           |          |           |
| Tobacco costs                                                  | 363.4                           | (20.4 )    | (5.3 )    | 383.8                          | 858.0     | (56.0 )   | (6.1 )   | 914.0     |
| Transportation, storage and other period costs                 | 17.6                            | 0.1        | 0.6       | 17.5                           | 53.7      | (5.0 )    | (8.5 )   | 58.7      |
| Derivative financial instrument and exchange losses (gains)    | (6.5 )                          | (5.6 )     | (622.2 )  | (0.9 )                         | (8.7 )    | (13.1 )   | (297.7 ) | 4.4       |
| Total tobacco cost of goods sold                               | 374.5                           | (25.9 )    | (6.5 )    | 400.4                          | 903.0     | (74.1 )   | (7.6 )   | 977.1     |
| Average cost per kilo                                          | 3.69                            | (0.22 )    | (5.6 )    | 3.91                           | 3.59      | (0.43 )   | (10.7 )  | 4.02      |
| Processing and other revenues cost of services sold            | 14.8                            | (7.2 )     | (32.7 )   | 22.0                           | 52.6      | 10.4      | 24.6     | 42.2      |
| Total cost of goods and services sold                          | 389.3                           | (33.1 )    | (7.8 )    | 422.4                          | 955.6     | (63.7 )   | (6.2 )   | 1,019.3   |
| Gross profit                                                   | 65.2                            | (3.5 )     | (5.1 )    | 68.7                           | 149.5     | (3.5 )    | (2.3 )   | 153.0     |
| Selling, general and administrative expenses                   | 28.7                            | (0.4 )     | (1.4 )    | 29.1                           | 100.9     | 13.9      | 16.0     | 87.0      |
| Other income                                                   | 2.7                             | 2.1        | 350.0     | 0.6                            | 4.3       | 4.2       | 4,200.0  | 0.1       |
| Restructuring and asset impairment charges                     | 0.5                             | (1.0 )     | (66.7 )   | 1.5                            | 1.1       | (3.0 )    | (73.2 )  | 4.1       |
| Operating income                                               | 38.7                            | —          | —         | 38.7                           | 51.8      | (10.2 )   | (16.5 )  | 62.0      |
| Debt retirement expense                                        | 2.3                             | 2.3        | 100.0     | —                              | 2.3       | 2.3       | 100.0    | —         |
| Interest expense                                               | 35.1                            | 4.7        | 15.5      | 30.4                           | 97.6      | 10.7      | 12.3     | 86.9      |
| Interest income                                                | 1.8                             | (0.9 )     | (33.3 )   | 2.7                            | 5.9       | 0.5       | 9.3      | 5.4       |
| Income tax expense                                             | 21.0                            | 19.1       | 1,005.3   | 1.9                            | 20.8      | (0.8 )    | (3.7 )   | 21.6      |
| Equity in net income of investee companies                     | 2.4                             | (0.1 )     | (4.0 )    | 2.5                            | 0.3       | (5.4 )    | (94.7 )  | 5.7       |
| Loss attributable to noncontrolling interests                  | (0.1 )                          | —          | —         | (0.1 )                         | (0.1 )    | —         | —        | (0.1 )    |
| Income (loss) attributable to Alliance One International, Inc. | \$(15.5 )                       | *\$(27.2 ) | *(232.5 ) | \$11.7                         | \$(62.6 ) | \$(27.3 ) | (77.3 )  | \$(35.3 ) |

\* Amounts do not equal column totals due to rounding

Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015

Summary. Total sales and other operating revenues decreased 7.5% to \$454.5 million and total costs of goods and services sold decreased 7.8% to \$389.3 million primarily due to lower average sales prices and tobacco costs per kilo attributable to smaller crops in the U.S. and Tanzania related to weather conditions, lower prices paid to tobacco suppliers across most regions and changes in product mix with an increased percentage of byproduct sales versus lamina. Volumes decreased slightly as the smaller crops were significantly offset by the timing of shipments and sales of prior crop in most regions. Processing and other revenues and processing costs decreases were related to the impact of the weather on the U.S. crop this year and the timing of processing customer requirements in South America. As a result, gross profit decreased 5.1% to \$65.2 million while gross profit as a percentage of sales improved from the prior year of 14.0% to 14.3% due to product mix and currency movement. Selling, general and administrative expense ("SG&A") decreased 1.4% primarily from the non-recurrence of reserves for customer receivables in the prior year that were offset by increased personnel costs. Other income increased from the net insurance recovery related to tobacco lost by fire in Zimbabwe last year and restructuring and asset impairment charges were reduced this year. With the lower gross profit offset by improved SG&A, other income and restructuring charges, operating income was consistent with the prior year.

## 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 December 31, 2016 Compared to Three Months Ended December 31, 2015 (continued)

During the three months ended December 31, 2016, we refinanced our existing senior secured revolving credit facility with the issuance of \$275.0 million of 8.5% senior secured first lien notes due 2021 and a \$60.0 million ABL credit agreement. As a result, one-time debt retirement costs of \$2.3 million were recorded for the accelerated amortization of debt issuance costs. Our interest costs increased from the prior year primarily due to higher average borrowings on our seasonal lines of credit at higher average rates and the inclusion of interest costs from our reconsolidated Zimbabwe subsidiary this year. Our effective tax rate was 692.1% this year compared to 17.4% 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 allowances, net exchanges losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits.

## North America Region

## North America Region Supplemental Information

|                                                             | Three Months Ended December 31, |          |         |         |
|-------------------------------------------------------------|---------------------------------|----------|---------|---------|
|                                                             | 2016                            | Change   |         | 2015    |
|                                                             | \$                              |          | %       |         |
| Kilos sold                                                  | 15.1                            | (3.7 )   | (19.7 ) | 18.8    |
| Tobacco sales and other operating revenues:                 |                                 |          |         |         |
| Sales and other operating revenues                          | \$92.4                          | \$(33.1) | (26.4 ) | \$125.5 |
| Average price per kilo                                      | 6.12                            | (0.56 )  | (8.4 )  | 6.68    |
| Processing and other revenues                               | 16.4                            | (7.1 )   | (30.2 ) | 23.5    |
| Total sales and other operating revenues                    | 108.8                           | (40.2 )  | (27.0 ) | 149.0   |
| Tobacco cost of goods sold:                                 |                                 |          |         |         |
| Tobacco costs                                               | 82.1                            | (29.8 )  | (26.6 ) | 111.9   |
| Transportation, storage and other period costs              | 5.1                             | 0.9      | 21.4    | 4.2     |
| Derivative financial instrument and exchange (gains) losses | (0.4 )                          | (0.4 )   | (100.0) | —       |
| Total tobacco cost of goods sold                            | 86.8                            | (29.3 )  | (25.2 ) | 116.1   |
| Average cost per kilo                                       | 5.75                            | (0.43 )  | (7.0 )  | 6.18    |
| Processing and other revenues cost of services sold         | 13.7                            | (3.2 )   | (18.9 ) | 16.9    |
| Total cost of goods and services sold                       | 100.5                           | (32.5 )  | (24.4 ) | 133.0   |
| Gross profit                                                | 8.3                             | (7.7 )   | (48.1 ) | 16.0    |
| Selling, general and administrative expenses                | 2.6                             | (4.7 )   | (64.4 ) | 7.3     |
| Other income                                                | —                               | —        | —       | —       |
| Restructuring and asset impairment charges                  | —                               | —        | —       | —       |
| Operating income                                            | \$5.7                           | \$(3.0 ) | (34.5 ) | \$8.7   |

The U.S. experienced adverse weather conditions during the growing season this year. As a result, the crop size was negatively impacted. The impact of the smaller crop as well as a shift in customer requirements from full service to processing resulted in a 19.7% decrease in volumes, a 27.0% decrease in total sales and other operating revenues to \$108.8 million and a 24.4% decrease in total costs of goods and services sold to \$100.5 million. The decrease in

average sales prices per kilo and average tobacco costs per kilo reflects the shift in customer requirements. The smaller U.S. crop also negatively impacted customer requirements for processing and other services which decreased processing and other revenues and costs of services when compared with the prior year. As a result, gross profit decreased 48.1% this year to \$8.3 million and gross profit as a percentage of sales decreased from 10.7% to 7.6%. Partially offsetting the decrease in gross profit, SG&A improved 64.4% due to lower allocations for general corporate services. However, operating income declined 34.5% from the prior year to \$5.7 million.

## 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 December 31, 2016 Compared to Three Months Ended December 31, 2015 (continued)

## Other Regions

## Other Regions Supplemental Information

|                                                             | Three Months Ended December 31, |        |         |         |
|-------------------------------------------------------------|---------------------------------|--------|---------|---------|
|                                                             | 2016                            | Change |         | 2015    |
|                                                             | \$                              | %      |         |         |
| Kilos sold                                                  | 86.5                            | 3.0    | 3.6     | 83.5    |
| Tobacco sales and other operating revenues:                 |                                 |        |         |         |
| Sales and other operating revenues                          | \$341.7                         | \$6.2  | 1.8     | \$335.5 |
| Average price per kilo                                      | 3.95                            | (0.07) | (1.7 )  | 4.02    |
| Processing and other revenues                               | 4.0                             | (2.6 ) | (39.4 ) | 6.6     |
| Total sales and other operating revenues                    | 345.7                           | 3.6    | 1.1     | 342.1   |
| Tobacco cost of goods sold:                                 |                                 |        |         |         |
| Tobacco costs                                               | 281.3                           | 9.4    | 3.5     | 271.9   |
| Transportation, storage and other period costs              | 12.5                            | (0.8 ) | (6.0 )  | 13.3    |
| Derivative financial instrument and exchange (gains) losses | (6.1 )                          | (5.2 ) | (577.8) | (0.9 )  |
| Total tobacco cost of goods sold                            | 287.7                           | 3.4    | 1.2     | 284.3   |
| Average cost per kilo                                       | 3.33                            | (0.08) | (2.3 )  | 3.41    |
| Processing and other revenues cost of services sold         | 1.1                             | (4.0 ) | (78.4 ) | 5.1     |
| Total cost of goods and services sold                       | 288.8                           | (0.6 ) | (0.2 )  | 289.4   |
| Gross profit                                                | 56.9                            | 4.2    | 8.0     | 52.7    |
| Selling, general and administrative expenses                | 26.1                            | 4.3    | 19.7    | 21.8    |
| Other income                                                | 2.7                             | 2.1    | 350.0   | 0.6     |
| Restructuring and asset impairment charges                  | 0.5                             | (1.0 ) | (66.7 ) | 1.5     |
| Operating income                                            | \$33.0                          | \$3.0  | 10.0    | \$30.0  |

Total sales and other operating revenues increased 1.1% to \$345.7 million while total costs of goods and services sold of \$288.8 million decreased slightly from the prior year. Volumes increased 3.6% primarily due to the timing of shipments and sales of prior crop in the current year in most regions but were partially offset by the short crop in Tanzania this year. Although volumes increased, the product mix of sales this year changed with an increased percentage of byproduct sales versus lamina. The change in product mix and lower prices paid to tobacco suppliers in Africa lowered average sales prices by 1.7% and average tobacco costs per kilo by 2.3%. The positive impact of currency movements primarily in Europe on average tobacco costs per kilo were mainly offset by higher conversion costs per kilo in Tanzania due to the smaller crop size. Processing and other revenues and processing costs decreases were related to South America and the timing of processing customer requirements for the current crop. As a result, gross profit increased 8.0% to \$56.9 million and gross profit as a percentage of sales increased from 15.4% to 16.5% from product mix and currency movement. Increases in SG&A are primarily associated with lower allocations of general corporate services to North America due to its lower profitability this year as increased personnel costs were offset by the non-recurrence of reserves for customer receivables in the prior year. Increases in SG&A were partially offset by the net insurance recovery related to tobacco lost by fire in Zimbabwe last year. As a result, operating income improved 10.0% to \$33.0 million this year.

- 31 -

---

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)

Nine Months Ended December 31, 2016 Compared to Nine Months Ended December 31, 2015

Summary. Total sales and other operating revenues decreased by 5.7% to \$1,105.1 million and total costs of goods and services sold decreased 6.2% to \$955.6 million primarily due to lower average sales prices and tobacco costs per kilo attributable to smaller crops in the U.S., Brazil and Tanzania related to weather conditions, lower prices paid to tobacco suppliers across most regions and changes in product mix with an increased percentage of byproduct sales versus lamina. The positive impact of currency movements primarily in Europe on average tobacco costs per kilo were partially offset by \$9.2 million of lower of cost or market adjustments. Partially offsetting the impact of lower prices is a 3.6% increase in volumes from changes in certain customer requirements, sales of prior crop in most regions and the timing of shipments in North America and Africa. Processing and other revenues and processing costs increases were primarily related to the reconsolidation of our Zimbabwe subsidiary. As a result of lower average sales price and costs per kilo, gross profit decreased 2.3% to \$149.5 million while gross profit as a percentage of sales improved slightly from 13.1% to 13.5%. SG&A increased 16.0% primarily from increased Kenya-related legal and professional fees, incentive compensation costs, additional audit related fees and the inclusion of costs from our reconsolidated Zimbabwe subsidiary this year partially offset by the non-recurrence of reserves for customer receivables in the prior year. Increases in SG&A were partially offset by the net insurance recovery related to tobacco lost by fire in Zimbabwe last year, the non-recurrence of one-time expenses in Africa and the sale of trade tax credits in South America. Restructuring and asset impairment charges in the current year are mainly related to our former U.S. cut rag facility. Restructuring and asset impairment charges in the prior year were primarily attributable to impairment of advances to tobacco suppliers and real property in Africa. During the three months ended December 31, 2016, we refinanced our existing senior secured revolving credit facility with the issuance of \$275.0 million of 8.5% senior secured first lien notes due 2021 and a \$60.0 million ABL credit agreement. As a result, one-time debt retirement costs of \$2.3 million were recorded for the accelerated amortization of debt issuance costs. Our interest costs increased from the prior year primarily due to higher average borrowings and higher average rates on our seasonal lines of credit as well as increased amortization of debt issuance costs and the inclusion of interest costs from our reconsolidated Zimbabwe subsidiary this year. Our effective tax rate was (49.2)% this year compared to (111.1)% 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 periods that include changes in valuation allowances, net exchanges losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefit.



## 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)

## Nine Months Ended December 31, 2016 Compared to Nine Months Ended December 31, 2015 (continued)

## North America Region

## North America Region Supplemental Information

|                                                     | Nine Months Ended December 31, |          |         |         |
|-----------------------------------------------------|--------------------------------|----------|---------|---------|
|                                                     | 2016                           | Change   |         | 2015    |
|                                                     | \$                             | %        |         |         |
| Kilos sold                                          | 35.9                           | 0.4      | 1.1     | 35.5    |
| Tobacco sales and other operating revenues:         |                                |          |         |         |
| Sales and other operating revenues                  | \$188.2                        | \$(19.9) | (9.6 )  | \$208.1 |
| Average price per kilo                              | 5.24                           | (0.62 )  | (10.6 ) | 5.86    |
| Processing and other revenues                       | 29.5                           | (6.5 )   | (18.1 ) | 36.0    |
| Total sales and other operating revenues            | 217.7                          | (26.4 )  | (10.8 ) | 244.1   |
| Tobacco cost of goods sold:                         |                                |          |         |         |
| Tobacco costs                                       | 159.3                          | \$(19.0) | (10.7 ) | 178.3   |
| Transportation, storage and other period costs      | 10.7                           | 2.4      | 28.9    | 8.3     |
| Derivative financial instrument and exchange losses | (0.4 )                         | (1.1 )   | (157.1) | 0.7     |
| Total tobacco cost of goods sold                    | 169.6                          | (17.7 )  | (9.5 )  | 187.3   |
| Average cost per kilo                               | 4.72                           | (0.56 )  | (10.6 ) | 5.28    |
| Processing and other revenues cost of services sold | 21.6                           | (3.2 )   | (12.9 ) | 24.8    |
| Total cost of goods and services sold               | 191.2                          | (20.9 )  | (9.9 )  | 212.1   |
| Gross profit                                        | 26.5                           | (5.5 )   | (17.2 ) | 32.0    |
| Selling, general and administrative expenses        | 17.6                           | 0.6      | 3.5     | 17.0    |
| Other income                                        | —                              | (0.1 )   | (100.0) | 0.1     |
| Restructuring and asset impairment charges          | 0.5                            | 0.5      | 100.0   | —       |
| Operating income                                    | \$8.4                          | \$(6.7 ) | (44.4 ) | \$15.1  |

Total sales and other operating revenues decreased 10.8% to \$217.7 million and total costs of goods and services sold decreased 9.9% to \$191.2 million due to a 10.6% decrease in average sales prices per kilo and a 10.6% decrease in average tobacco costs per kilo primarily attributable to the impact of adverse weather conditions during the U.S. growing season that resulted in a smaller crop this year. Also decreasing average sales prices and cost per kilo was product mix with an increased percentage of byproduct sales versus lamina. Volumes increased slightly as the negative impact from the smaller U.S. crop was offset by changes in certain customer requirements and the timing of shipments. The smaller U.S. crop also negatively impact customer requirements for processing and other services which decreased processing and other revenues and costs of services when compared with the prior year. As a result, gross profit decreased 17.2% to \$26.5 million this year and gross profit as a percentage of sales declined slightly from 13.1% to 12.2%. Increases in SG&A were attributable to allocations for general corporate services. Restructuring and asset impairment charges during the current year were attributable to our former U.S. cut rag facility. Primarily due to the decrease in gross profit, operating income declined \$6.7 million from the prior year.

- 33 -

---

## 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)

## Nine Months Ended December 31, 2016 Compared to Nine Months Ended December 31, 2015 (continued)

## Other Regions

## Other Regions Supplemental Information

|                                                     | Nine Months Ended December 31, |          |          |         |
|-----------------------------------------------------|--------------------------------|----------|----------|---------|
|                                                     |                                | Change   |          |         |
|                                                     | 2016                           | \$       | %        | 2015    |
| Kilos sold                                          | 215.7                          | 8.4      | 4.1      | 207.3   |
| Tobacco sales and other operating revenues:         |                                |          |          |         |
| Sales and other operating revenues                  | \$845.8                        | \$(54.2) | (6.0 )   | \$900.0 |
| Average price per kilo                              | 3.92                           | (0.42 )  | (9.7 )   | 4.34    |
| Processing and other revenues                       | 41.6                           | 13.4     | 47.5     | 28.2    |
| Total sales and other operating revenues            | 887.4                          | (40.8 )  | (4.4 )   | 928.2   |
| Tobacco cost of goods sold:                         |                                |          |          |         |
| Tobacco costs                                       | 698.7                          | (37.0 )  | (5.0 )   | 735.7   |
| Transportation, storage and other period costs      | 43.0                           | (7.4 )   | (14.7 )  | 50.4    |
| Derivative financial instrument and exchange gains  | (8.3 )                         | (12.0 )  | (324.3 ) | 3.7     |
| Total tobacco cost of goods sold                    | 733.4                          | (56.4 )  | (7.1 )   | 789.8   |
| Average cost per kilo                               | 3.40                           | (0.41 )  | (10.8 )  | 3.81    |
| Processing and other revenues cost of services sold | 31.0                           | 13.6     | 78.2     | 17.4    |
| Total cost of goods and services sold               | 764.4                          | (42.8 )  | (5.3 )   | 807.2   |
| Gross profit                                        | 123.0                          | 2.0      | 1.7      | 121.0   |
| Selling, general and administrative expenses        | 83.3                           | 13.3     | 19.0     | 70.0    |
| Other income                                        | 4.3                            | 4.3      | 100.0    | —       |
| Restructuring and asset impairment charges          | 0.6                            | (3.5 )   | (85.4 )  | 4.1     |
| Operating income                                    | \$43.4                         | \$(3.5 ) | (7.5 )   | \$46.9  |

Total sales and other operating revenues decreased 4.4% to \$887.4 million and total costs of goods and services sold decreased 5.3% to \$764.4 million. Volumes increased 4.1% primarily due to the timing of shipments and sales of prior crop in the current year in most regions but were partially offset by the short crops in Brazil and Tanzania this year. Although volumes increased, the product mix of sales this year changed with an increased percentage of byproduct sales versus lamina. The change in product mix and lower prices paid to tobacco suppliers in Africa and South America lowered average sales prices by 9.7% and average tobacco costs per kilo by 10.8%. The positive impact of currency movements primarily in Europe on average tobacco costs per kilo were partially offset by \$8.0 million of lower of cost or market adjustments and higher conversion costs per kilo in Tanzania due to the smaller crop size. Processing and other revenues and processing costs increases were related to the reconsolidation of our Zimbabwe subsidiary. As a result, gross profit increased slightly by 1.7% to \$123.0 million and gross profit as a percentage of sales increased from 13.0% to 13.9%. Increases in SG&A are associated with increased Kenya-related legal and professional fees, incentive compensation costs, additional audit related fees and the inclusion of costs from our reconsolidated Zimbabwe subsidiary partially offset by the non-recurrence of reserves for customer receivables in the prior year. Increases in SG&A were partially offset by the net insurance recovery related to tobacco lost by fire in Zimbabwe last year, the non-recurrence of one-time expenses in Africa and the sale of trade tax credits in South America as well reduced restructuring and asset impairment charges from the prior year that were primarily

attributable to impairment of advances to tobacco suppliers and real property in Africa. Primarily the result of increased SG&A, operating income declined 7.5% to \$43.4 million this year.

- 34 -

---

## 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 December 31, 2016, we are in the process of repaying our South American related crop lines as we continue to ship inventory and collect receivables. In Africa, we continue to ship product which should continue into the first quarter of fiscal year 2017 as well as the purchase of the new crop which should begin mid-March. In Asia, the Indian Mysore and Indonesian crops are approaching the end of the processing and shipping is in full force. Europe continues shipping of the current crop and is preparing to purchase the new crop during the fourth fiscal quarter. North America has completed flue cured processing with shipping winding down and has commenced the purchasing, processing and shipping of the burley crop which should continue into the fourth fiscal quarter, seasonally elevating its working capital requirements. 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 prudently, and as needed on a currency by currency basis.

## Working Capital

Our working capital increased from \$815.5 million at March 31, 2016 to \$826.0 million at December 31, 2016. Our current ratio was 2.1 to 1 at December 31, 2016 and 2.2 to 1 at March 31, 2016. The increase in working capital is primarily related to the seasonal buildup of African inventories and advances to tobacco suppliers partially offset by the related seasonal increase of notes payable to finance the purchase and processing of the Africa crops.

The following table is a summary of items from the Condensed Consolidated Balance Sheets and Condensed Statements of Consolidated Cash Flows. Approximately \$189.2 million of our outstanding cash balance at December 31, 2016 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   |
|-----------------------------------------------------------------------|--------------|---------|---------|
|                                                                       | December 31, | 2015    | 31,     |
| (in millions except for current ratio)                                | 2016         |         | 2016    |
| Cash and cash equivalents                                             | \$296.5      | \$195.2 | \$199.7 |
| Trade and other receivables, net                                      | 270.2        | 329.0   | 401.0   |
| Inventories and advances to tobacco suppliers                         | 942.2        | 998.2   | 833.2   |
| Total current assets                                                  | 1,570.5      | 1,587.1 | 1,940.4 |
| Notes payable to banks                                                | 558.1        | 522.5   | 476.0   |
| Accounts payable                                                      | 50.4         | 57.5    | 81.6    |
| Advances from customers                                               | 17.5         | 20.7    | 9.9     |
| Total current liabilities                                             | 744.5        | 776.2   | 674.8   |
| Current ratio                                                         | 2.1 to       | 2.0 to  | 2.2 to  |
|                                                                       | 1            | 1       | 1       |
| Working capital                                                       | 826.0        | 801.9   | 815.5   |
| Long-term debt                                                        | 969.3        | 909.4   | 910.2   |
| Stockholders' equity attributable to Alliance One International, Inc. | 204.8        | 168.0   | 271.1   |
| Net cash provided (used) by:                                          |              |         |         |

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

|                      |         |          |          |
|----------------------|---------|----------|----------|
| Operating activities | (42.3 ) | (345.0 ) | (135.3 ) |
| Investing activities | (8.6 )  | (10.9 )  | (13.5 )  |
| Financing activities | 148.0   | 406.1    | 193.6    |

- 35 -

---

Alliance One International, Inc. and Subsidiaries

LIQUIDITY AND CAPITAL RESOURCES: (continued)

Operating Cash Flows

Net cash used by operating activities decreased \$302.7 million in 2016 compared to 2015. The decrease in cash used was primarily due to the timing of collections of accounts receivable in accordance with terms and less cash used to finance inventory balances due to reduced carryover amounts as well as lower green prices paid to tobacco suppliers across the regions for the current crops.

Investing Cash Flows

Net cash used by investing activities decreased \$2.3 million in 2016 compared to 2015. The decrease in cash used was primarily due to less purchases of property, plant and equipment in accordance with capital improvements plans for fiscal 2017.

Financing Cash Flows

Net cash provided by financing activities decreased \$258.1 million in 2016 compared to 2015. This decrease is primarily due to lower net proceeds from short-term borrowings due to the timing of shipments and reductions in purchasing requirements for the current crop due to lower prices paid to tobacco suppliers across regions, the timing of cash flows from our previously existing revolver borrowings and payments for debt issuance costs in connection with the issuance of 8.5% first lien notes and new ABL facility described below. Partially offsetting the decrease in cash provided by financing activities were the proceeds received from the issuance of the first lien notes.

Debt Financing

We continue to finance our business with a combination of short-term and long-term seasonal credit lines, an ABL facility, long-term debt securities, customer advances and cash from operations when available. At December 31, 2016, we had cash of \$296.5 million and total debt outstanding of \$1,537.7 million comprised of \$568.1 million of short-term and long-term notes payable to banks, \$266.8 million of 8.5% senior secured first lien notes, \$701.9 million of 9.875% senior secured second lien notes, and \$0.9 million of other long-term debt. The \$82.1 million seasonal increase in notes payable to banks from March 31, 2016 to December 31, 2016 results from the timing of borrowings under the African and Brazilian credit lines. Aggregated peak borrowings by facility occurring at any time during the three months ended December 31, 2016 and 2015, respectively, were \$652.7 million at a weighted average interest rate of 6.0% and \$558.0 million at a weighted average interest rate of 5.0%. Aggregated peak borrowings by facility occurring at any time during the three months ended December 31, 2016 and 2015 were repaid with cash provided by operating activities. Available credit as of December 31, 2016 was \$327.4 million comprised of \$60.0 million under our ABL facility, \$262.0 million of notes payable to banks and \$5.4 million of availability exclusively for letters of credit. In fiscal 2017, we expect to incur capital expenditures of approximately \$22.0 million for routine replacement of equipment as well as investment in assets that will add value to the customer or increase efficiency.

On October 14, 2016, we issued \$275.0 million in aggregate principal amount of 8.5% senior secured first lien notes due 2021 (the "First Lien Notes"), at an issue price of 99.085% of the face amount thereof, entered into an ABL credit agreement with certain bank lenders establishing a senior secured revolving asset-based lending facility of \$60.0 million subject to a borrowing base composed of its eligible accounts receivable and inventory, and used a portion of the net proceeds from the offering of the First Lien Notes to repay in full all outstanding indebtedness and accrued and unpaid interest owed under our then existing senior secured revolving credit facility. Upon such repayment, we terminated our then-existing senior secured revolving credit facility. See Note 11 "Debt Arrangements" of Notes to Condensed Consolidated Financial Statements for further information.

No cash dividends were paid to shareholders during the quarter ended December 31, 2016 and payment of dividends is restricted under the terms of our ABL credit facility and the indentures governing the First Lien Notes and our senior secured second lien notes due 2021. We believe that our sources of liquidity versus our requirements will be sufficient to fund our anticipated needs for the next twelve months.



## Alliance One International, Inc. and Subsidiaries

## LIQUIDITY AND CAPITAL RESOURCES: (continued)

## Debt Financing (continued)

All debt agreements contain certain cross-default or cross-acceleration provisions. The following table summarizes our debt financing as of December 31, 2016:

|                                                         | Outstanding          |                         | December 31,<br>2016<br>Lines<br>and<br>Letters Interest<br>Available Rate |                      |
|---------------------------------------------------------|----------------------|-------------------------|----------------------------------------------------------------------------|----------------------|
|                                                         | March<br>31,<br>2016 | December<br>31,<br>2016 |                                                                            |                      |
| Senior secured credit facility:                         |                      |                         |                                                                            |                      |
| Revolver <sup>(1)</sup>                                 | \$200.0              | \$—                     | \$—                                                                        | — %                  |
| ABL facility <sup>(2)</sup>                             | —                    | —                       | 60.0                                                                       | 5.2 %                |
| Senior notes:                                           |                      |                         |                                                                            |                      |
| 8.5% senior first lien notes due 2021                   | —                    | 266.8                   | —                                                                          | 8.5 %                |
| 9.875% senior second lien notes due 2021 <sup>(4)</sup> | 709.2                | 701.9                   | —                                                                          | 9.9 %                |
| Long-term foreign seasonal borrowings                   | 10.0                 | 10.0                    | —                                                                          | 5.4 % <sup>(3)</sup> |
| Other long-term debt                                    | 1.3                  | 0.9                     | —                                                                          | 7.4 % <sup>(3)</sup> |
| Notes payable to banks <sup>(5)</sup>                   | 476.0                | 558.1                   | 262.0                                                                      | 5.9 % <sup>(3)</sup> |
| Total debt                                              | \$1,396.5            | \$1,537.7               | 322.0                                                                      |                      |
| Short term                                              | \$476.0              | \$558.1                 |                                                                            |                      |
| Long term:                                              |                      |                         |                                                                            |                      |
| Long term debt current                                  | \$0.4                | \$10.3                  |                                                                            |                      |
| Long term debt                                          | 920.1                | 969.3                   |                                                                            |                      |
|                                                         | \$920.5              | \$979.6                 |                                                                            |                      |
| Letters of credit                                       | \$4.7                | \$7.8                   | 5.4                                                                        |                      |
| Total credit available                                  |                      |                         | \$327.4                                                                    |                      |

(1) As of October 14, 2016, revolving credit facility was paid in full and cancelled.

(2) As of December 31, 2016, the full amount of the ABL facility was available. Borrowing is permitted under the ABL Credit Facility only to the extent that, after consideration of the application of the proceeds of the borrowing, the Company's unrestricted cash and cash equivalents would not exceed \$180.0 million. At December 31, 2016, the Company's unrestricted cash and cash equivalents significantly exceeded \$180.0 million.

(3) Weighted average rate for the nine months ended December 31, 2016.

(4) On April 1, 2016, we adopted new accounting guidance that changed the presentation of debt issuance costs in financial statements on a retrospective basis. Therefore, the March 31, 2016 balance previously reported of \$709.2 million has been adjusted by \$9.9 million to \$699.3 million in accordance with the adoption of this new accounting guidance.

(5) 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 December 31, 2016, we had approximately \$558.1 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$833.3 million subject to limitations as provided for in the agreement governing our revolving credit facility. Additionally against these lines there was \$13.2 million available in unused letter of credit capacity with \$7.8 million issued but unfunded.

The Company also has foreign seasonal borrowings with an original maturity greater than one year. As of December 31, 2016, approximately \$10.0 million was drawn and outstanding with a maximum capacity totaling \$10.0 million.

#### RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

See Note 1 "Basis of Presentation and Significant Accounting Policies" of Notes to Condensed Consolidated Financial Statements for further information.

Alliance One International, Inc. and Subsidiaries

LIQUIDITY AND CAPITAL RESOURCES: (continued)

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, 2016 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, 2016. 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, 2016.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was carried out by the Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of December 31, 2016. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods required by the U.S. Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2016.

Our Chief Executive Officer and Chief Financial Officer have concluded that the following material weaknesses in internal control over financial reporting existed at the Kenyan subsidiary as of March 31, 2016 and are being remediated as of December 31, 2016:

Processes and control activities designed to support the amounts of inventory recorded in the general ledger were not effective, were incorrectly applied or were overridden. It appears that local management, through collusion, overrode controls to record fictional inventory balances.

Processes and control activities designed to support the amounts of deferred crop costs recorded in the general ledger were not effective, were incorrectly applied or were overridden. It appears that local management, through collusion, overrode controls to record fictional inventory balances.

Processes and control activities designed to support the revenue transactions recorded in the general ledger were not effective, were incorrectly applied or were overridden. Specifically, revenues were recorded based on estimated transactions and actual transactions were processed outside the general ledger system. As a result revenue recorded did not reflect actual sales transactions and accounts receivable balances were recorded which would not be realized.

Alliance One International, Inc. and Subsidiaries

Item 4. Controls and Procedures (continued)

Evaluation of Disclosure Controls and Procedures (continued)

Our Chief Executive Officer and Chief Financial Officer have concluded that the following material weaknesses existed at the regional and corporate levels as of March 31, 2016 and are being remediated as of December 31, 2016:

The Company's regional review of operations at African origins was ineffective due to the lack of adequate qualified resources to appropriately examine and investigate financial results. Although the financial information at the Kenya origin was reviewed on a timely basis, the regional review did not incorporate the qualitative and operational context needed to perform an adequate review, which allowed the misstated balances to build up over extended periods of time.

The Company's fraud risk assessment was not adequately designed or implemented to address the risks of fraud in the African origins. The Company's assessment did not determine that the African region warranted additional control activities to respond to additional fraud risks in Africa.

Changes in Internal Control Over Financial Reporting

There were no changes that occurred during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as noted above related to the material weaknesses at the Kenya subsidiary and Africa regional levels and as noted below.

The Company has completed or undertaken plans to remediate these control deficiencies that constituted material weaknesses as follows:

The Kenyan operation is under new management including the Managing Director and the Finance & Operations Manager.

The Company is in the process of standardizing key controls. As part of this process, which is being led by Corporate Audit Services, the deficient control activities at the Kenya location will be replaced with the standardized key control activities. The control activities in Kenya will be tested for design and operating effectiveness in fiscal 2017.

Two new regional controller positions have been employed for the Africa region. These positions add an additional layer of review and oversight of African entities and function as "super" financial directors of three entities each, as well as being part of the regional team. The entities for which each position is responsible will rotate every two years.

This African regional controller team performs new analyses, which include but are not limited to trend analyses over time, crop information and inventory turns (including by comparison to other origins within the region) to corroborate accounting amounts, sign off on quarterly packet reviews and account reconciliations, and monitoring controls around the financial close process. Additionally, the regional controllers regularly visit origins for their work to help assess monthly and quarterly financial processes.

We enhanced regional review procedures at the corporate level with the implementation of semi-annual regional risk management committee meetings to review business risks and controls, and results of the region based on new analyses and trends as well.

The Company's fraud risk assessment of a location has been included as a factor in determining the scope of our SOX compliance program, in order to more specifically tailor the design of internal control over financial reporting to mitigate the risk of material misstatement caused by fraud or otherwise.

In light of the material weakness referred to above, we performed additional analyses and procedures in order to conclude that our condensed consolidated financial statements in this Form 10-Q for the quarters ended December 31, 2016 and 2015 are fairly presented, in all material respects, in accordance with US GAAP.

- 39 -

---

Alliance One International, Inc. and Subsidiaries

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.

The Company received a subpoena from the SEC, dated November 28, 2016, for documents relating to the restatement of its financial statements for the years ended March 31, 2013, 2014 and 2015 and the three months ended June 30, 2015, which restatements were filed with the SEC on May 25, 2016. The Company is cooperating fully with the SEC and providing the requested materials.

In addition to the above-mentioned matters, 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.

Alliance One International, Inc. and Subsidiaries

Item 6. Exhibits.

- 4.01 Indenture dated as of October 14, 2016 among Alliance One International, Inc., Alliance One Specialty Products, LLC, as initial guarantor, and the Bank of New York Mellon Trust Company, N.A., as trustee, collateral agent, registrar and paying agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed by Alliance One International, Inc. on October 14, 2016 (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)

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.

/s/ Todd B. Compton

Todd B. Compton

Date: February 6, 2017 Vice President - Controller  
(Principal Accounting Officer)

- 42 -

---

Alliance One International, Inc. and Subsidiaries

Index of Exhibits

Exhibits

- |                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.01                                                                   | Indenture dated as of October 14, 2016 among Alliance One International, Inc., Alliance One Specialty Products, LLC, as initial guarantor, and the Bank of New York Mellon Trust Company, N.A., as trustee, collateral agent, registrar and paying agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed by Alliance One International, Inc. on October 14, 2016 (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) |                                                                                                                                                                                                                                                                                                                                                                                                            |